

Dresden International University

Masterstudiengang

Unternehmensführung



How Key Account Management and Competitive Intelligence can Contribute to the Development of Corporate Strategy

Master-Thesis

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Studiengang: MBA Unternehmensführung

Semester: Wintersemester 2011/2012

Prüfer: Prof. Dr. Anja Stöhr

Datum: 19. Januar 2012

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List of Abbreviations

BSC	Balanced Scorecard
CI	Competitive Intelligence
IS	Informationssysteme
KAM	Key Account Management
RBV	Resource Based View
ROA	Return on assets
SAM	Strategic Account Manager (used synonymously with KAM)
SPC	Service-Profit Chain
SpN	Sales Person Navigation
3PL	Third party logistics

1 Introduction

One of the proxies for the success of a corporate strategy is firm performance. This is because "performance is a surrogate for the alignment between an organization's internal processes (strategy, structure, etc) and the external environment."¹ Business excellence therefore hangs together with the attainment of such an alignment. It is two of the processes that support such an alignment between customer and supplier that are the subject of this paper. The processes in question are so called "Key Account Management" (KAM) and competitive intelligence (CI).

Definition of Key Account Management

Key account management is the "speak[ing] to the large, complex, strategic customer in one voice which represents the full capabilities of the supplier[...].The objective is the true definition of "win-win" – to determine how the supplier can help the customer grow its business AND grow their own business at the same time."²

Definition of Competitive Intelligence

"Als "Competitive Intelligence" (CI) wird somit der systematische Prozess der Informationserhebung und -analyse bezeichnet, durch den aus fragmentierten (Roh-)Informationen über Märkte, Wettbewerber und Technologien den Entscheidern ein plastisches Verständnis für ihr Unternehmensumfeld und damit eine Entscheidungsgrundlage geliefert wird."³

¹ Subramanian R., IsHak S., Competitor Analysis Practices of US Companies, 1998, S.13

² Napolitano L, Customer Supplier Partnering, 2007, S.3

³ Michaeli, R., Competitive Intelligence, 2006, S.3

The proposal that will be presented in this paper is that that alignment process occurs through a series of stages. These stages are:

1. The creation of a "vision" for the future of the business
2. Out of this flows a corporate strategy
3. The translation of the corporate strategy into action via the setting of goals and objectives
4. Execution of the strategy
5. Feedback

Figure 1 below illustrates a generic strategic planning process. "Assess internal and external environment" corresponds to stage 1, "strategic direction" to stage 2, "define and select base strategy and contingency plans" to stage 3, "implement policy and strategy program" to stage 4, and "evaluate performance" to stage 5.

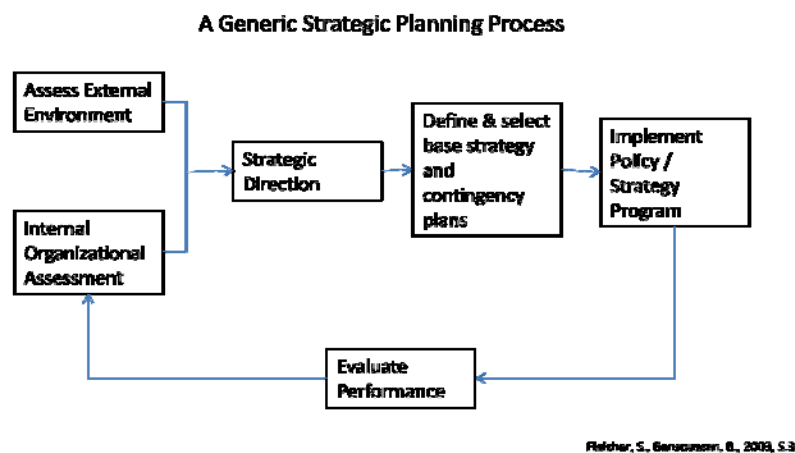


Figure 1.

It is the author's argument in this paper that a superficial evaluation of the strategic planning process, as it is illustrated in figure 1 above, misses some important subtleties that are key to full supplier-customer alignment and strategic success. Specifically, although much of the strategic planning literature has focused on stages 2 and 3, it is in fact aspects of stages 1 and 5 which are actually crucial to alignment and good strategy formulation. Figure 2 below gives a broad overview of the author's proposition:

The Importance of Performance Outcomes to the Formation of Strategy

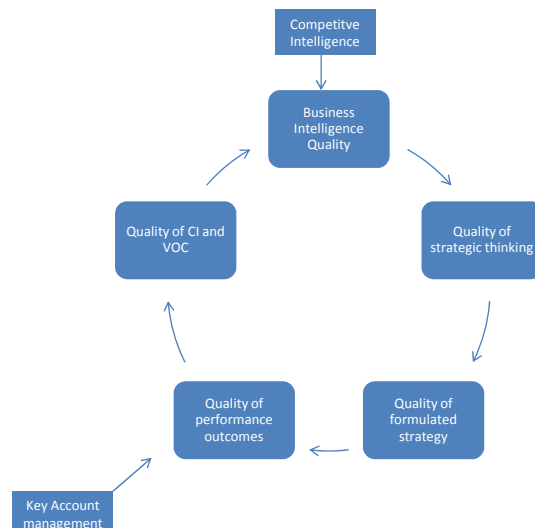


Figure 2.

Figure 2 introduces business intelligence (BI) and “voice-of-the-customer” (VOC) to the equation.

Definition of BI: „Business intelligence (BI) bezeichnet einen integrierten, unternehmensspezifischen, IT-basierten Gesamtansatz zur betrieblichen Entscheidungsunterstützung.“⁴

Definition of VOC: "Aus[„voice-of-the-customer"]werden bezogen auf den Wertschöpfungsprozess die Kriterien (CTQs) abgeleitet, die für den Kunden die höchste Priorität bei der Beurteilung der Qualität der gelieferten Marktleistungen besitzen."⁵

⁴ Kemper, Baars et al., Business Intelligence, 2010, S.9

⁵ Töpfer A., Six Sigma. Konzeption und Erfolgsbeispiele für praktizierte Null-Fehler-Qualität, 2004, S.79

"Quality of strategic thinking" in figure 2 corresponds to Stage 1. The construct "Business intelligence" (BI) (whose inputs in part are CI and VOC) in figure 2 corresponds to Stage 5. It is the author's proposition that both the quality of competitive intelligence and direct feedback from the customer through the six-sigma "voice-of-the-customer" (VOC) process, are extremely important inputs to high quality "business intelligence" (BI) which, in turn, is the most important input to the quality of strategic thinking, the precursor to the formulated strategy. While it will be argued that there is a role for a professional CI function in its own right, it will be further postulated that, via a variety of mechanisms to be explored in this paper, that it is the performance outcomes with customers which dictate a lot of the quality of CI and VOC. It will further be postulated that the quality of performance outcomes is directly influenced by key account management. In a sense, the author's proposition is that professional CI and KAM functions act as metaphorical "kick-starts" to the bringing to rotation of the circular process illustrated in figure 2 above. The process illustrated in figure 2 is a virtuous circle in that once a critical degree of process quality is reached, this circular process starts to internally generate higher quantities and quality of both CI, VOC and thus BI, reinforcing quality of strategy and the level of supplier-customer alignment. It implies a focus on strategic execution and information inputs that were traditionally not the main focus of a lot of the strategic planning literature. This proposition is the justification for the focus of this paper being the contribution of KAM (strategic execution process) and CI (strategic information) to the quality of corporate strategy.

A corporate strategy is a success if it aligns the supplier's strategy and structure to its external environment. Some general principles involved here will be introduced including Porter's five forces of competition and his value chain.

Definition of Corporate Strategy

“Competitive strategy is a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there.”⁶

Strategic decisions are so important because they “are far more rare, have larger implications for the ongoing competitiveness of the firm, impact more subsequent decisions, and are more difficult to reverse than decisions of a more operational or tactical nature.”⁷ Strategic decision making that takes into account some of the tried and tested principles of strategy is therefore important because of the dire consequences of rashness. One of these principles involves the search for so-called value chain linkages.

Definition of the Value Chain

“Jedes Unternehmen ist eine Ansammlung von Tätigkeiten, durch die sein Produkt entworfen, hergestellt, vertrieben, ausgeliefert und unterstützt wird.”⁸

Definition of Value Chain Linkages

„Verknüpfungen sind die Beziehungen, die zwischen einer Wertaktivität und den Kosten und der Durchführung einer anderen bestehen.”⁹

It is the effectiveness of the supplier's value chain relative to the effectiveness of that of the general industry in supporting the customer, which highlights the firm's strengths and opportunities. It is the taking seriously of the task of searching, in an insightful rather than superficial manner for such value chain linkages, which is of such great importance. Of Porter's competitive five forces, it has often been the so called “power of substitutes” which have devastated an unprepared industry.

⁶ Porter M.E., Competitive Strategy, 1998, S.xxiv

⁷ Fleisher C., Bensoussan B., Strategic and Competitive Analysis, 2003, S.4

⁸ Porter M.E., Wettbewerbsvorteile, 1999, S.67

⁹ Porter M.E., Wettbewerbsvorteile, 1999, S.80

However, customer centered innovation ensures that we are satisfying the basic need better than any competitor or any substitute product. The resources the firm may possess to make that a reality may be strong relational skills and strong relationships within a network in the market. Here, potent relational skills (including key account management skills) and professional CI programs can be effective resources. Being in a position to discover those basic needs and opportunities has proven difficult because efforts have often fallen foul of what Mintzberg calls the fallacy of formalization and detachment. This is the idea, that the formation of a strategic vision can be achieved by anyone, including formal strategic planners, as long as that person is supplied with sufficient data analysis. "Formalization implies a rational sequence, from analysis through administrative procedure to eventual action. But strategy making as a learning process can proceed in the other direction too. We think in order to act, to be sure, but we also act in order to think."¹⁰The implication here is that only those who carry out the running of the business, i.e. the line managers, have the opportunity to "learn by doing" and as such should be the source of the strategy.¹¹ Strategic planning is a process of synthesis, most complex in nature, utilizing both quantitative and qualitative inputs and requiring knowledge. Mintzberg concludes that a formal system can never replace the spark of intuitive genius that can combine all these inputs into a strategic vision. He also concludes, that it is likely that only strategic practitioners will have a chance of combining all these necessary qualities in one person.

In identifying and taking advantage of value chain linkages, as well as dealing with some of the five forces of competition, the relational view of the firm, sees that firm strengths or resources can be present in a strategic partnership with another company and that these additional resources can be used to reinforce existing resources and make the taking advantage of potential value chain linkages a possibility. The relational view of the enterprise will be compared with the other

¹⁰ Mintzberg H., The Fall and Rise of Strategic Planning, 1994, S.111

¹¹ Vgl. Mintzberg H., The Fall and Rise of Strategic Planning, 1994, S.110

types of view: the classical view; the behavioral view; and the resource-based view. With the advent of the internet, and particularly Web 2.0 based internet functionality, the relational view encompasses a new approach to marketing, where the customer is seen as the co-developer and co-creator of not only the product but also the marketing message. The studies on key account management highlight that its emergence is associated with a rise in competition, business complexity and a heightened need for relationship coordination. It is postulated in this paper that not only will involvement by a firm in strategic networks and partnerships raise a firm's ability to deal with the five competitive forces, but that the establishment of a well resourced KAM function will support the functioning of these partnerships and likely make them more successful. From there it will be postulated that membership in a strategic network of partnerships will, *ceteris paribus*, lead to higher firm performance. In regards one of the prerequisites of KAM success being top management support, the link between KAM, strategic network membership and firm performance will be analyzed within the framework of the so-called "service-profit chain" proposed by Heskett et al.

Definition of the "service-profit chain"

"The service-profit chain establishes relationships between profitability, customer loyalty, and employee satisfaction, loyalty, and productivity."¹²

In summary, there appears to be a strong interrelatedness of the following concepts: Quality of business intelligence (a construct contributed to by both qualitative (e.g. competitive intelligence (CI)) and quantitative (e.g. e-business) information input), quality of strategic thinking, vision and execution (Mintzberg, 1994). The quality of network partnerships appears to have both a direct bearing on strategy development via the identification of value chain linkages (Porter, 2000) and also an indirect effect via the rise in quality of CI associated with the occupation by a firm

¹² Heskett et al., Putting the Service-Profit Chain to Work, 2008, S.120

of “an information rich position within a network” (Dyer and Singh, 1998). Effective network partnerships appear to be an important tool in business transformation and continued excellence (Dittrich, Duysters, de Man, 2007). Key account management, in contrast, appears to make a contribution at the levels of both strategic execution and in the support of the gathering of CI (Wengler, Ehret, Saab, 2005). A mind-map of the postulated interrelationships is presented in figure 3 below:

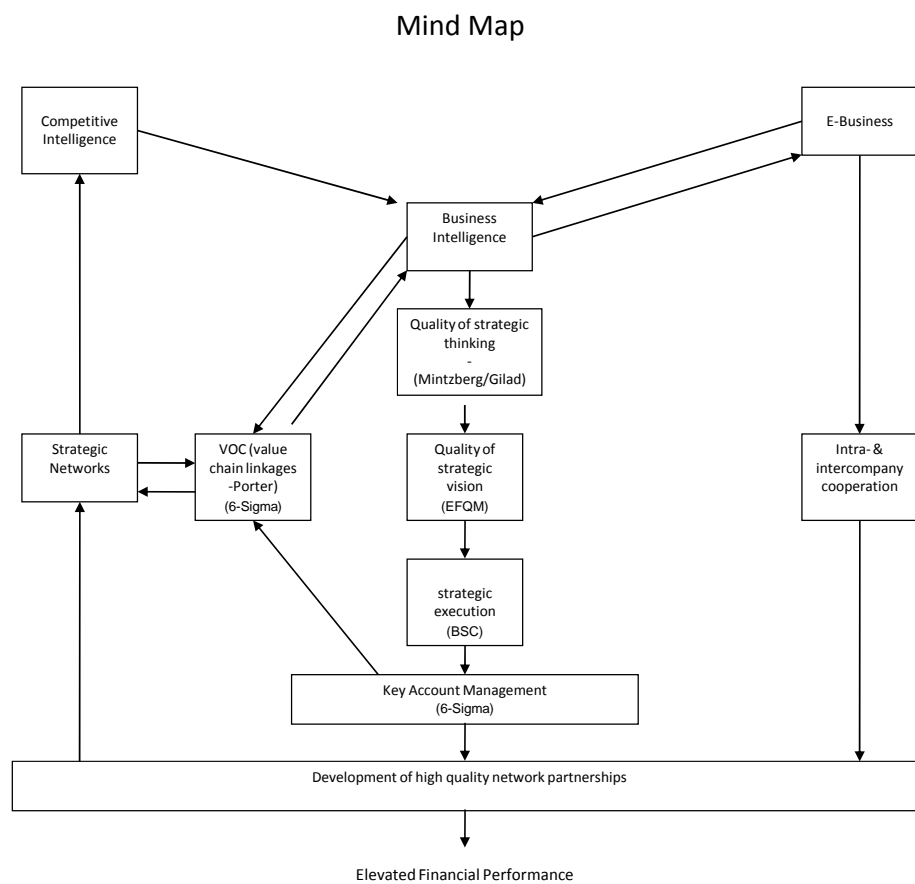


Figure 3.

It is posited in the paper that the KAM function is a business leader function, and the management of key accounts corresponds to the running of a mini-business within the overall business. As such the development of strategy for key accounts is

important for the business as a whole, and the process of doing this effectively is prone to the same limitations / needs for quality input. It is therefore postulated that, just as for the business as a whole:

Hypothesis H1: A key account program will have a greater effect in raising profitability if preceded by the successful implementation of a professional competitive intelligence function.

It is further posited that, through the firm's raised financial performance resulting from the successful implementation of a KAM program (the resulting market success making it a more attractive partner), as well as the firm's heightened ability through having established key account relationships to identify value chain linkages that subsequently support the drive to form strategic networks:

Hypothesis H2: The establishment of a successful key account program is an important driving factor in the later development of a successful strategic network in which the firm takes up membership and operates.

It is finally further posited that the membership in a strategic network raises the firm's ability still further to identify and execute new value chain linkages that bring efficiencies in both cost savings and sales growth, and as a result of the firm having taken-up "an information-rich position within a network"¹³, an associated rise in the quality of competitive intelligence, which in turn, as a key input into business intelligence, raises the quality of strategic thinking. The final postulate is therefore that:

Hypothesis H3: Companies operating in successful strategic networks remain in growth and growing profits for longer consistent periods than companies in the same industry and of a similar size that do not.

Given that firm performance is a good proxy for the success of corporate strategy, the confirmation of all three of the hypotheses would confirm the importance to

¹³ Dyer, Singh, The Relational View, 1998, S.668

corporate strategy development of KAM and CI, as well as confirm the mechanisms, as indicated in the mind map, by which they provide such support.

1.1 Thesis Structure

This paper is broken into eight further sections. In section two we will look at what key account management is and why it comes about. In section three we will do the same for competitive intelligence and test the hypothesis that a pre-requisite for a successful key-account program is the prior institution of a professional competitive intelligence function within the firm. In section four we will look at the subject of corporate strategy, and specifically the ground rules for how a strategy should be developed and researched and the basic types that most strategies have to correspond to, in order to have a chance of success. From there we look at how the over-arching strategy types are translated down to concrete steps at the firm level and start to see how the concept of linking or partnering tends to accompany much of the efforts to execute a strategy. An additional subject in this section will be to look at strategy making in its essence and the argument that strategy making needs to be practitioner based and cannot be taken and turned into an isolated scientific process. In section five we approach the concept that firm success is the result of the alignment of firm resources with the outside world and review the place of six-sigma within the total quality management framework of EFQM-Balanced scorecard-Six-sigma (philosophy-goals-execution). Section five is thus all about how supplier-customer alignment comes about, and the framework provided by six-sigma such that all the activities of the business are customer focused. Section six puts key account management within the wider framework of relationship management generally, first by analyzing the angles from which a firm can be viewed, and out of these developing the relational view to better explain the basic needs being fulfilled by key account management. Customer relationship management will be introduced in section six as a philosophy that will help guide

the business in its quest to pick "key" accounts. Section seven looks at the growth of strategic networks as a way to organize the value chain, and classifies these nets by a number of criteria. The cooperation associated with co-creation will be looked at associated with the rise of Web 2.0 and its effect on the organization of marketing going forwards. The rise in the requirement to increase levels of coordination of such complex relationship networks will be investigated by exploring a hypothesis that the chances of the successful operation of a firm within a strategic network is heightened if this is preceded by the instatement of a key account program. The reasoning behind this is that modern business networks are associated with heightened levels of relationship complexity along with a heightened need for relationship coordination. Rises in complexity and the need to increase relationship coordination have both been shown in independent research to be drivers for the increased use of key account management. Section eight addresses the subject of whether involvement in strategic networks promotes better firm performance than non involvement in such networks. The reason for pursuing this hypothesis is that if it can be shown that CI supports KAM supports success in networks, then networks supporting firm performance would show one of the causal chains through which CI and KAM both have a positive effect on firm performance, resource alignment and thus the quality of corporate strategy developed.

2 Key Account Management (KAM)

2.1 What is Key Account Management?

Key account management is described as "an important approach to creating value, by implementing specific processes targeting most important customers."¹⁴ It is the implementation of the relationship marketing approach, the philosophy behind customer relationship marketing (CRM), focused on one account. It is associated with business to business relationships of both great potential and complexity within a very competitive environment. These sorts of relationships are characterized by requiring higher than average levels of coordination to manage. Empirical studies have identified a correlation between levels of coordination required in the relationship, levels of competition and the implementation of key account management.¹⁵

2.1.1 Why does it come about?

There are many important influences on the economy that are leading the intensity of competition and the complexities of doing business to both increase. These effects are social, legal, economic and technological factors. Social factors such as changes in life-style, demographics and wealth distribution are leading to a rapid change in what sorts of goods and services are being demanded and by whom. Legal factors, such as health and safety and environmental legislation as well as legislation to protect privacy and personal data, also play their part. Demographic

¹⁴ Wengler et al., Implementation of Key Account Management, 2005, S.103

¹⁵ Vgl. Wengler et al., Implementation of Key Account Management, 2005, S.103

factors such as the increase in average age of western Europeans affect the types of goods and services demanded. The shift in wealth and thus economic power, from western Europe and North America to the B.R.I.C. nations, will affect the location and nature of the largest markets for goods and services, and finally the development of the internet makes almost every geographical market around the globe accessible to all, thus increasing the density of competitors and intensity of competitive rivalry globally. In addition, internet related technology developments have enabled an unparalleled increase in both mobile communications and data exchange with an attendant realm of new product possibilities and business models accompanying this technological development. These basic developments have led to yet other developments in, for example, the structure of many markets. As the stakes and also levels of competitive rivalry in markets have, as a result of the above, increased, there has been much consolidation in markets, and many firms have either exited markets or been taken over.¹⁶ Key account management as a concept has been recognized and practiced since the 1960's, however the increase in percentage of companies practicing, or professing to practice key account management has dramatically increased in the last decade. This development is closely related to the increase in levels of competition in markets and rising levels of complexity in doing business caused by the factors described above.¹⁷ Key account management is an answer to rising requirements for the coordination of highly complex business relationships in very competitive markets.¹⁸ The forces at work within markets, as well as the level of the stakes, have meant that in order to compete, there is a necessity to make strategic investments. Such investments are wrought with uncertainty. The readiness to make such strategic investments is increased if uncertainty of information is decreased. In addition, where technological

¹⁶ Vgl. Fleisher C., Bensoussan B., Strategic and Competitive Analysis, 2003, SS.7-8

¹⁷ Vgl. Gueselaga R., Johnston W., What's next in key account management research?, 2010, S.1063

¹⁸ Vgl. Wengler et al., Implementation of Key Account Management: Who, why and how?, 2005, S.107

change is the driver of new product development, the influencing of or actual setting of standards at an early stage in the new technology's development also reduces uncertainty.¹⁹ However this can rarely be done by one company alone and often calls for coalitions of partnering companies to work together in order to achieve this. The development of partnerships is a mechanism for the reduction of such uncertainty. The partnering of customers and suppliers is a particularly important example of such a relationship, and the work of the key account manager, as the manager of such relationships, is therefore of exceptional importance to a business.

2.1.2 The Connection to Relationship Management

Key account management represents a movement away from transactional marketing to relationship marketing in the case of the business done with one particular account. As will be identified, the development of such relationships can become a sustained competitive advantage for the business. The sustained nature of such advantage emanates from the complexity and thus inimitability of such relationships if developed skillfully. The skill required rests to a great degree with the key account manager. In their 2006 paper, Plouffe and Barclay identify a particularly important skill and success factor associated with the most accomplished sale people which they call sales person navigation (SpN) skills.²⁰ In this particular role, the key account manager acts as entrepreneur / intrapreneur by both identifying business development opportunities within the key account and identifying and procuring for themselves and their efforts, support from within their own firm. SpN skills are associated with the dual ability of being able to identify who within one's own organization can best support the opportunity identified by

¹⁹ Vgl. Möller K., Rajala A., Rise of Strategic Nets – New Modes of Value Creation, 2007, S.898

²⁰ Vgl. Plouffe C.R., Barclay D.W., Salesperson navigation, 2007, SS. 528-529

the salesperson and then through skillful influencing, procure such support. Such support in its most effective form is in the form of sales and marketing resource allocation that supports the key account manager's efforts. The key account manager is the weaver of relationships across the organizational boundary and within organizations. Such relationship management skills are the foundation of the beginnings of a partnership which with time will develop into a relationship of trust. Trust leads to the increases in cooperation, information exchange and joint investments that reduce un-certainty, streamline the exchange process and increase efficiencies in the management of such relationships, as will be discussed in section 6.1.3 below. Trust is also the foundation of learning from customers which improves the chances of successful new product introduction.²¹

2.1.3 The Key Objectives and thus Benefits of Key Account Management

"The objective is the true definition of „win-win“ – to determine how the supplier can help the customer grow its business AND grow their own business at the same time."²² This is how Lisa Napolitano the ex head of NAMA (National Account Managers Association) in her seminal 1997 article describes the main objective of key account management. Workman et al (2003) confirm this by stating that "Customers enter into collaborative relationships with suppliers in anticipation of receiving benefits such as better products and services, better pricing terms, improved logistics, and more information sharing than they would receive if they were not in such a relationship"²³. The focus on building a strong working relationship between the supplier and its key customer is the vehicle that gets the two parties to the win-win situation that both Napolitano and Workman describe. A

²¹ Vgl. Rodriguez et al., Can a good organizational climate compensate for a lack of top management commitment to new product development? 2008, S.121

²² Napolitano L, Customer Supplier Partnering, 2007, S.3

²³ Workman et al., Intraorganizational Determinants of Key Account Management Effectiveness, 2003, S.8

strong relationship depends upon openness, trust, reciprocity, understanding, shared goals and the desire on the part of the parties to form the relationship.

The supplier's objectives for developing the key account relationship have been identified as:

- Protecting existing volume base
- Realizing incremental volume
- Increasing account penetration
- Increasing market penetration
- Gaining operational efficiencies
- Gaining competitive advantage
- Product development ideas
- Greater customer loyalty²⁴

The benefits to the customer of entering into such a key account relationship with its supplier(s) are:

- Better service
- Faster communication
- Better / faster decisions
- Easy access to supplier
- Better supplier knowledge
- Greater Trust
- Continuity
- Greater security²⁵

Some of the factors that have been identified as key to the success of a key account relationship are the factors that contribute towards the success of any mutual relationship. Such factors are also the foundation of the achievement of both side's objective(s) (above) in the key account relationship.

²⁴ Vgl. Napolitano L, Customer Supplier Partnering, 1997, S.2

²⁵ Vgl. Napolitano L, Customer Supplier Partnering, 1997, S.2

The factors identified as necessary for the attainment of such benefits are:

- Getting the choosing of the right customer(s) with which to develop key account relationships right. The objective is to correctly identify potential candidate accounts. Not only such factors as the strategic importance of the account for the industry but also the compatibility of the target account's needs with our core strengths as well as the compatibility of the two corporate cultures are needed for the relationship to develop through effective communication and fulfillment of both parties' needs. Also there must be a desire to form such a relationship on the part of the target.²⁶
- Understanding of the key customer's business. It has been shown in a number of studies that the ability of the supplier to understand the key account's business and thus to pro-actively make win-win suggestions are of great importance to the esteem in which a supplier will be held by its customer. This addresses the aspects of understanding and shared goals that are so important in a relationship. Understanding and pro-activeness would indicate the importance that business intelligence and particularly competitive intelligence can play in the development of win-win scenarios and profitable key account relationships.²⁷
- Top management commitment to the key account relationship. This has been identified as being one of the most important drivers of success in developing key account relationships. The top management commitment helps ensure goal alignment within the supplier such that the supplier applies the resources and the coordinated responses needed to support the key account manager.²⁸
- Human aspects. A corporate culture that encourages team working and cooperation within the supplier will encourage the development of the team

²⁶ Vgl. Wengler et al., Implementation of Key Account Management, 2005, S.109

²⁷ Vgl. Kosch D., Shonka M., From Deal Breaker to Deal Maker, 2010, S.50

²⁸ Vgl. Workman et al., Intraorganizational Determinants of Key Account Management Effectiveness, 2003, S.3

network necessary to develop the coordinated responses from the supplier that the key account requires. Team working throughout the organization is important, but Workman et al. identify that particularly a good "esprit de corp" (team spirit) amongst the sales staff of the supplier is of huge importance to making the key account relationship work. Having the right person as the key account manager is of key importance here, as they will be the one to weave and manage the web of relationships that when effective, make key account relationships a success. Some of the qualities looked for in the high performing key account manager are being a good administrator, communicator, consultant, diplomat, leader, missionary, motivator, negotiator, ombudsman, organizer, problem solver, professional, relationship builder, strategist, trainer and visionary.²⁹

- Having a master plan. Coordinated efforts require a plan to work to. Having a well thought through and communicated master-plan for the development of a key account is of importance to enable top management to support the development of the account. Only if a plan can be communicated will top management support be effective. Only with the existence of a plan can work be organized and progress measured. A plan also indicates to the key account how committed the supplier is and this generates trust in the relationship.³⁰
- An open relationship. Having an open and frank dialogue is the pre-requisite for the supplier and its key account to make progress in learning about one another's needs such that truly win-win solutions in the form of new products and services can be developed, as well as new mutually beneficial ways of working implemented.

The development of the above success factors is a mutually reinforcing process, in that success in the development of one of the factors supports the successful

²⁹ Vgl. Napolitano L, Customer Supplier Partnering, 2007, S.6

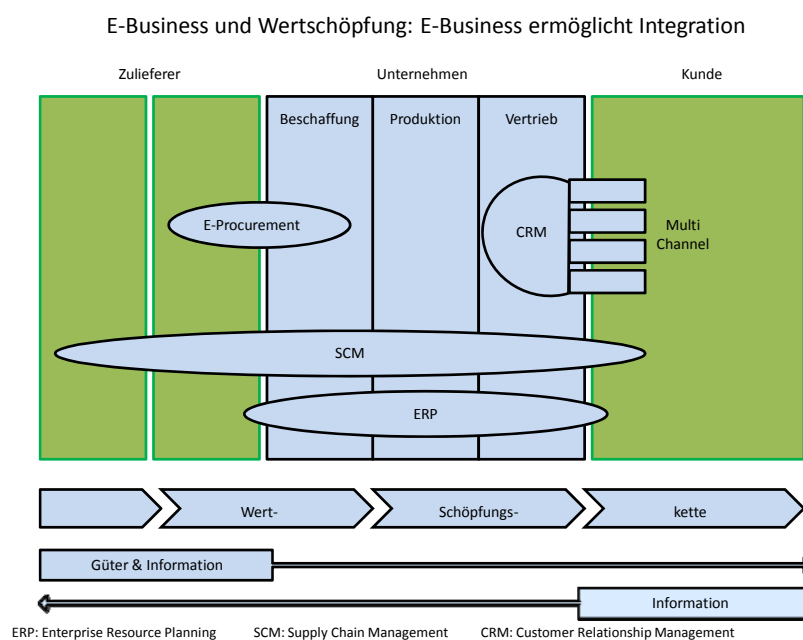
³⁰ Vgl. Napolitano L, Customer Supplier Partnering, 2007, S.5

development of one or more of the others. An example of such a reinforcing interrelationship, are the factors "Openness of relationship" and "Having a Master Plan". Having a master plan encourages trust which itself encourages relationship openness which in turn increases the quality of the master-plan.

2.1.4 How Modern IT Supports the Attainment of such Benefits

2.1.4.1 E-Business

E-business is the "teilweise[n][...][bzw.] vollständige[n] Unterstützung, Abwicklung und Aufrechterhaltung von Leistungsaustauschprozessen mittels elektronischer Netze"³¹. Figure 4 below illustrates how e-business is the process of attaining supply chain integration via the exchange of electronic information.



Kemper, Baars, Mehanna, Business Intelligence, 2010, S.7

Figure 4.

³¹ Kemper, Baars et al., Business Intelligence, 2010, S.6

The full sharing of information required for coordinating a supply-chain is a goal supported by research that shows that a closer working together promotes supply-chain efficiency. A practical example of how such closeness of cooperation and exchange of information can lead to cost savings in the supply-chain, is in the avoidance of the so-called "bull-whip-effect" in inventory management.³² The bull-whip-effect is a phenomenon where demand changes at one end of the supply chain lead to an over-reaction in levels of change in inventory at the other end of the chain, due to a time-delay in the transmission of information. The corollary of this is inefficient levels of inventory being held and the inability to react to changes in demand in the supply chain in a timely fashion, with the associated levels of waste and foregone revenues. Tight supply chain coordination (tight sharing of information throughout the supply chain) has been shown to reduce or even eliminate the bull-whip-effect. The bull-whip-effect found at the operational level, however, has its equivalents at the strategic level of organizational decision making. These strategic efficiency issues have to do with how capable organizations are in sensing potential changes in the market and customer requirements and how flexible and effective they are in reacting to such changes. Peter Drucker states that one of the strategic traps that many firms fall into is the one of "fighting the last war", whereby companies continue to focus on issues that were important to their success, but which have long since been overtaken by newer more important ones.³³

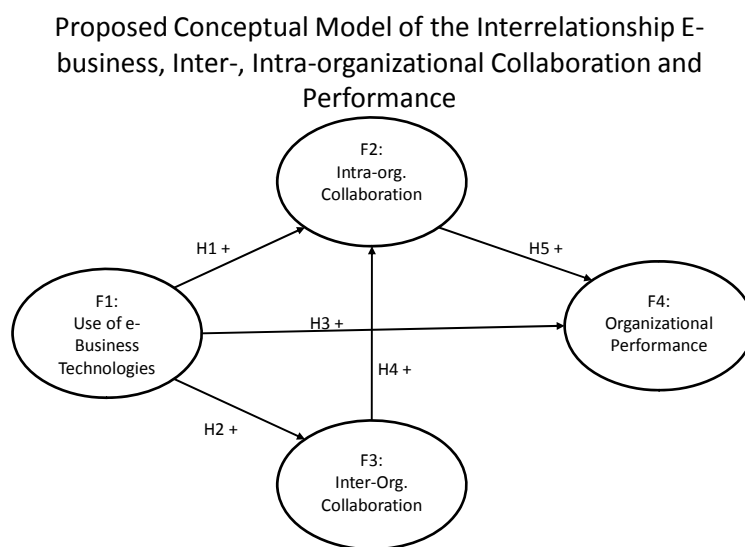
2.1.4.2 E-Business and Cooperation and Coordination

In terms of an organization's ability to perform, Sanders, in her 2007 paper, identifies a number of important factors associated with e-business implementation,

³² Sucky E., The bullwhip effect in supply chains, 2009, S. 311

³³ Leggio et al. Managing enterprise risk, 2006, S. 147

having a positive correlation with organizational performance. She defines business performance "as success relative to specifically set business goals"³⁴. She proposes a model of how the use of e-business technologies, intra-organizational and inter-organizational collaboration are related to organizational performance as it is defined above. Figure 5 below illustrates the postulated interrelationships. Below that, the hypotheses Sanders makes (H1 through H5) are listed.



Sanders N.R., An Empirical study of the impact of e-business technologies, 2007, S.1336

Figure 5.

- H1: Firm use of e-business technologies has a direct and positive impact on intra-organizational collaboration.
- H2: Firm use of e-business technologies has a direct and positive impact on inter-organizational collaboration.

³⁴ Sanders NR., An empirical study of the impact of e-business technologies on organizational collaboration and performance., 2007, S.1336

- H3: Firm use of e-business technologies has a direct and positive impact on organizational performance.
- H4: Inter-organizational collaboration has a direct and positive impact on intra-organizational collaboration.
- H5: Intra-organizational collaboration has a direct and positive impact on organizational performance.³⁵

Sanders, as background to her research, identifies the following:

- A number of studies indicate a positive relationship between firm implementation of IT and performance. Some of the mechanisms proposed are that investment in IT promotes intra-company collaboration which has been shown to positively impact performance and also that such investments in IT technology demonstrate to other supply chain members' commitment.
- Further studies indicated that while there is a direct impact of e-business technologies on firm performance, there was no clear interrelationship between inter-company collaboration and firm performance.
- Still further studies identified a link between inter-company collaboration and intra-company collaboration. It appears that for inter-company collaboration to be successful, intra-company collaboration is required, because a supply chain doesn't stop at the borders of companies but flows right through an organization and is embodied by inter-departmental collaboration within an enterprise as well as collaboration between enterprises. Without the one, the other cannot work.

As a result of these insights, Sanders' study attempts to analyze the components of collaboration and how specifically e-business technologies, through the various components of collaboration, influences firm performance. Her study's contribution

³⁵ Vgl. Sanders NR., An empirical study of the impact of e-business technologies on organizational collaboration and performance., 2007, S.1336

to this field is that she uncovers that indirect effects of e-business technology on performance through enhanced collaboration come via the positive effects of e-business technologies on intra-organizational collaboration. This occurs through a direct positive impact of e-business on intra-organizational collaboration and an indirect effect whereby e-business technologies enable inter-organizational collaboration which in turn promotes intra-organizational collaboration, which in turn has a positive effect on firm performance. Her empirical research supported all five of her hypotheses, with H1 and H5 both being particularly strongly supported.³⁶ A corollary of her research is that companies are best served by developing intra-company collaboration. This is an activity for organizational development specialists and e-business technology implementers, both working very closely together in order to make companies as fit as they can be for profitable inter-organizational collaboration.

In her paper, Sanders sights the critique that some of her research respondents make of the operational nature of the variables she uses to measure collaboration (real-time sharing of operational information; real-time sharing of cross functional planning; engaging in collaborative planning and sharing cost information with suppliers). She goes on to say that further research should focus on the link between e-business technologies and more strategic levels of collaboration. Bughin and Chui in their 2011 paper report on a survey of "3249 executives across a range of regions, industries and functional areas"³⁷ done by their consultancy McKinsey, on use of Web 2.0 by these companies. Their findings are in agreement with those of Sanders in that they identify that internal collaboration within organizations supported by networking technology was associated with a greater level of market share gain and increase in profitability than companies relatively early in the development of internal networking. However, significantly, they also identified that

³⁶ Vgl. Sanders NR., An empirical study of the impact of e-business technologies on organizational collaboration and performance., 2007, S.1343

³⁷ Bughin J., Chui M., The Rise of the Networked Enterprise, 2010, S.2

organizations that were both more internally and externally networked had greater market share gains and profitability growth which they believe was being achieved "by forging closer marketing relationships with customers and by involving them in customer support and product-development efforts."³⁸ This seems to confirm that there is also a benefit to collaboration at the strategic level for more internally and externally networked enterprises. Web 2.0 technologies (a technology that allows information sharing just as e-business does) support the sharing of information and thus collaboration at all levels of the organization. The author extrapolates from that, that the construct "IT enabled information sharing" improves collaboration. E-business is one level of such IT enabled information sharing. As part of a continuum from operational to strategic information processing and sharing, e-business plays its part in developing the mosaic of information that informs collaboration and collaborative decisions inside and between organizations. Given that, particularly such internal collaboration promotes firm performance enhancement, the author feels it can be said that the case for the importance of e-business in the whole process of the interaction with and development of customers has been made. This is confirmed by Bughin and Chui who report that "respondents at companies that used Web 2.0 to collaborate across organizational silos and to share information more broadly also reported improved market share."³⁹ In studies such as that of Wengler et al., the importance of coordination as a driver in the promotion of KAM is identified and thus the link between coordination / collaboration, e-business and factors which promote KAM can be seen in Sander's study.

³⁸ Bughin J., Chui M., *The Rise of the Networked Enterprise*, 2010, S.6

³⁹ Bughin J., Chui M., *The Rise of the Networked Enterprise*, 2010, S.6

3 Competitive Intelligence (CI)

3.1 Definition of CI

There are a variety of approaches or emphases that have been taken to defining what competitive Intelligence (CI) is. Broadly speaking one can differentiate between CI as a process or as a product. The Society of Competitive Intelligence Professionals take a process approach, whereas Vedder and Guynes takes the product view. "Competitive intelligence can be defined in terms of both a process and a product. As a process, CI is the set of legal and ethical methods for collecting, developing, analyzing and disseminating actionable information pertaining to competitors, suppliers, customers, organization itself and business environment (Society of Competitive Intelligence Professionals [SCIP] 2009). As a product, CI is actionable information about the present and future behavior of competitors, suppliers, customers, technologies, government, acquisitions, market and general business environment (Vedder and Guynes 2000)."⁴⁰ One can also differentiate by the degree of actionability of the resulting CI output. Whereas Dishman and Caloff see the output as an assistance to strategic decision taking, "competitive intelligence is a process involving the gathering, analyzing, and communicating of environmental information to assist in strategic decision-making. As such, it is the fundamental basis of the strategic decision-making process"⁴¹, Michaeli views the output as having to provide the basis for a management decision, "als "Competitive Intelligence" (CI) wird somit der systematische Prozess der Informationserhebung und -analyse bezeichnet, durch den aus fragmentierten

⁴⁰ Yap S.C., Acquisition and Strategic Use of Competitive Intelligence, 2011, S.125

⁴¹ Dishman P.L., Caloff J.L., Competitive Intelligence, 2008, S.767

(Roh-)Informationen über Märkte, Wettbewerber und Technologien den Entscheidern ein plastisches Verständnis für ihr Unternehmensumfeld und damit eine Entscheidungsgrundlage geliefert wird.“⁴² It is clear that CI is at once both a process and a product. The author views the quality of the basis of the information for decision making, however, as decisive, and a definition such as Michaeli's that emphasizes this aspect would seem to be superior. Writers on the subject emphasize that it is the quality of the analysis within the CI process that is the decisive factor in its quality.⁴³

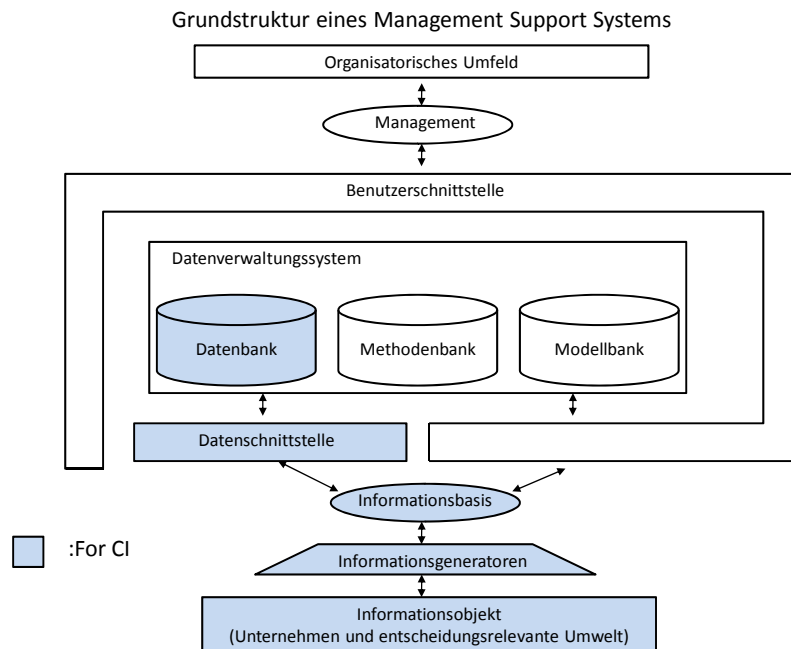
3.1.1 CI as a Component of Management Support Systems

Von Blohn describes competitive intelligence as an information oriented management support system (MSS). This is in contrast to other more structured decision making tools based on a model or method, fed with quantitative information.⁴⁴ CI information is primarily qualitative in nature and as such must be structured in a secondary step within a database. In figure 6 below a general structure of an MSS is shown, and the type of data management system used for the management of CI data highlighted.

⁴² Michaeli, R., Competitive Intelligence, 2006, S.3

⁴³ Vgl. Gilad B., Strategy without Intelligence, Intelligence without Strategy, 2011, S.7

⁴⁴ Vgl. Von Blohn, Systemunterstützung der Konkurrenzforschung, 2005, S.98-99



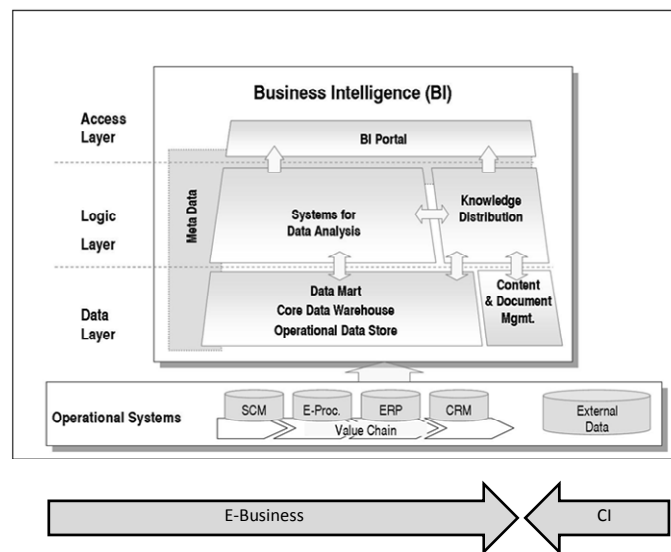
Von Blohn, Systemunterstützung der Konkurrenzforschung, 2005, S.91

Figure 6.

The interface between human and machine is shown clearly within von Blohn's model. The "Informationsgeneratoren" (generators of information) are the personnel gathering the CI. However, given that the information is weakly structured qualitative data, in a second step the data must be turned into information by structuring, sorting and analyzing its content. This analysis is also performed by the generators of information, the CI analyst team. The data is gathered on an "Informationsobjekt" (the object of research), which can be a customer, competitor, market, government, regulatory authority, potential new market entrant or anybody or thing else that could dramatically alter the competitive structure of an industry. The structured qualitative and quantitative intelligence information is loaded into an information database. The thus won CI can then be used to enrich other quantitative internal or external data generated by, for example, e-business applications to provide upper management with salient information for decision taking in context. CI gives internal historically generated information an external

context in which to be judged.⁴⁵ The thus combined information types (CI together with e-business generated (quantitative) information) form in totality what is called business intelligence in its wider sense.⁴⁶ Figure 7 below shows the relationship of CI to the other inputs in the context of business intelligence (BI).

Competitive Intelligence within a Business Intelligence Framework



In Anlehnung an Kemper, Baars, Mehanna, Business Intelligence, 2010, S.11

Figure 7.

Here, the operational systems and the external sources of data are the generators of information. The operational systems are the e-business systems in the modern company. External data is the CI. BI via the BI portal should form the information source that allows what the author will go on to describe as “strategic thinking” (see section 3), such strategic thinking being the starting point for the strategic planning process.

⁴⁵ Vgl. Kemper, H., Baars, H., Mehanna, W., Business Intelligence, 2010, S.258

⁴⁶ Vgl. Kemper, H., Baars, H., Mehanna, W., Business Intelligence, 2010, S.4

3.1.2 A Mind-Map Linking CI, E-business, BI, Strategy & KAM

The author presents again below in figure 8, the mind-map (already presented in section 1), based on what has been discussed so far, of the interrelation of the topics introduced. It presents the author's view of how these various areas / activities have the potential, when working in harmony, to enhance business performance.

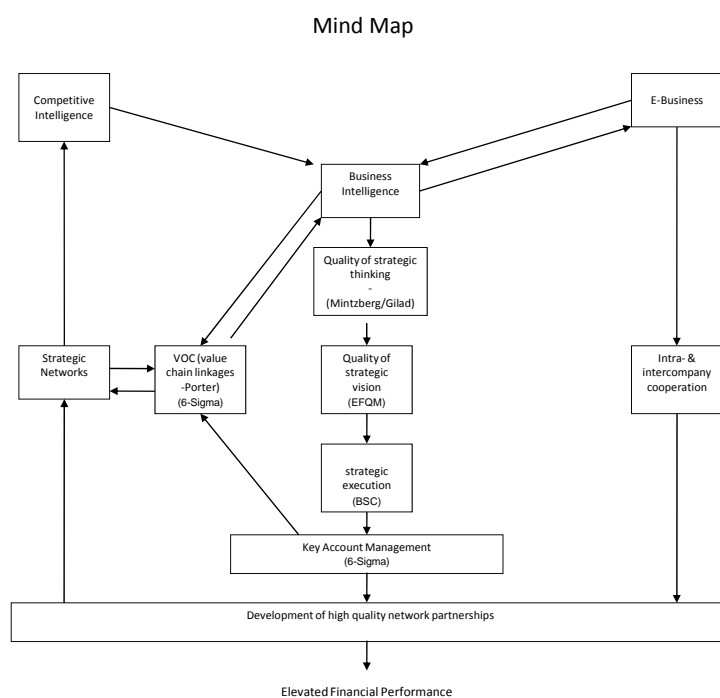


Figure 8.

One of the central themes in this paper will be that the quality of strategic thinking is an indispensable starting point for above average business performance.⁴⁷ The input into the strategic thinking process is business intelligence, which means that high quality business intelligence is paramount to the firm even having a chance of developing a good strategy. (In section 4 we will explore what a strategy is and

⁴⁷ Vgl. Gilad B., Strategy without Intelligence, Intelligence without Strategy, 2011, S.4

what makes a strategy good.) Good business intelligence has as its inputs, competitive intelligence which is structured and analyzed qualitative data, e-business quantitative data and voice of the customer (VOC) input on the factors critical to quality (CTQ's) from our most important customers' standpoint. A vision is only possible with informed and sharp strategic thinking. This means seeing the fundamentals of what moves a market as opposed to others only seeing today's activities.⁴⁸ As will be elaborated further, it is important to see not only what is happening, but why it is happening. Only from that can a vision of a "quality" business be grasped. The EFQM model of business excellence provides the overarching principles by which this should be done, and from there a balanced scorecard can be used for the setting down of specific tasks and goals to be met.⁴⁹ Amongst such tasks will be the forming of lucrative relationships with key customers. Via the development of such relationships, the generation of a self-reinforcing (or a virtuous) circle of continuously improving information and strategic fit can start to develop as, via voice of the customer (VOC) activity, the quality of input feeding back into business intelligence improves and thus too the quality of strategic thinking. A second virtuous circle can also develop, namely the one of generating strategic partnerships in networks as a result of a better understanding (through working with key accounts) of important value chain linkages (between us and the key account and between us and others of the key account's suppliers). Increasing the quality and strength (and to a degree) quantity of strategic partnerships increases the quality of, and access to, competitive intelligence. This is due to the firm taking-up "an information rich position within[a]network"⁵⁰.

⁴⁸ Vgl. Gilad B., *Strategy without Intelligence, Intelligence without Strategy*, 2011, S.5

⁴⁹ Vgl. Töpfer A., *Six Sigma, Balanced Scorecard und EFQM-Modell im Wirkungsverbund*, 2004, S.367

⁵⁰ Dyer J.H., Singh H., *The Relational View*, 1998, S.668

3.1.3 The role of CI

It is important to differentiate between two concepts, competitor intelligence and competitive intelligence. Benjamin Gilad, the President of the Academy of Competitive intelligence, says that what many of the companies that so say practice competitive intelligence actually do, is competitor intelligence. Competitor intelligence is competitor watching.⁵¹ Gilad goes on to say that some of the companies that have practiced very close competitor watching (he gives the example of General Motors) have been examples of spectacular corporate failure. He argues that such watching is unhelpful as it leads to a herd mentality with closely matched competitors emulating each other's mistakes, while missing the truly important developments that are occurring. The true nature of competitive intelligence should be to identify fundamental changes in the dynamics of markets (Gilad takes the example of the rise in traffic density and increase in working women generating a ready market for smaller more fuel efficient vehicles in the USA, which was completely overlooked (originally) by Detroit). Porter states that one of the most pressing needs for good CI is to be able to identify substitute products that may displace the currently supplied products in an industry, before their effect hits home. What has been described above is the quality that CI has to possess to be a good input to strategic thinking. There is indeed another benefit that good CI should bring. This additional benefit should be that we develop an understanding of our customer's business almost as good as that of our customer. If the quality of CI attains that level, then we are almost in a position to second guess our customer's needs – know his or her needs, or at least be able to verbalize them, before the customer can. Such a quality level of CI and resulting customer knowledge represents a devastating sales tool. A salesperson that is able to present to their customer a particular unfulfilled need that the customer may not yet have fully realized but in the course of the meeting is able to persuade them of its existence and at the same time show them a proven solution, is much more

⁵¹ Vgl. Gilad B., Strategy without Intelligence, Intelligence without Strategy, 2011, S.4

likely to both make a sale and strengthen their relationship with the customer than a salesperson that cannot. This thought takes us on to the next section, the relationship between competitive intelligence and key account management (KAM).

3.1.4 The Relationship of CI to KAM

The relationship of CI to KAM is quite a tight one. The reason for this is that the process of KAM can indeed be seen as the process of managing a business. Salojärvi, Sainio and Tarkiainen in their paper state that the key account manager must be someone in a position to manage a business roughly of the potential size to which the key account can grow.⁵² The broadness of vision that a key account manager must have is driven home by "the realization that a "competitor", in fact, is any entity that wants access to your profit margin, be it a traditional competitor, a supplier, a customer, or a government agency."⁵³ The key account manager must be at once both an entrepreneur and also adept at developing networks throughout their own organization to ensure that an identified need is appropriately approached by their own organization. Both activities require skills identified by Plouffe and Barclay as "Sales Person Navigation" skills⁵⁴ and identified as "intrapreneurial ability" by Workman, Homburg and Jensen⁵⁵. Perhaps, though, the decisive ability is being able to understand the customer, and the customer's business, as well as the customer understands these themselves. Workman, Homburg and Jensen in their comprehensive study on the intra-organizational factors contributing to KAM effectiveness identify that "effective salespeople understand how their customers make decisions and adjust their efforts

⁵² Vgl. Salojärvi, Sainio, Tarkiainen, Organizational factors enhancing customer knowledge utilization in the management of key account relationships, 2010, S.1396

⁵³ Martin P., Ogilvie T., BI Through the Customer's Eye, 1999, S.21

⁵⁴ Vgl. Plouffe C.R., Barclay D.W., Salesperson navigation, 2006, S.528

⁵⁵ Vgl. Workman J.P., Homburg C., Jensen O., Intraorganizational Determinants of Key Account Management Effectiveness, 2003, S.10

accordingly[...]."⁵⁶ Some of the advantages that a deeper understanding of the customer and their business brings to KAM can be listed as follows:

- Activity pro-activeness. Activity pro-activeness brings two distinct benefits: First mover advantage which means the best relationships are struck-up first and the best learning opportunities are taken advantage of earlier. Second the KAM has a better chance to steer the relationship when taking the initiative with the key account rather than when caught on the back foot, responding to key account requests.⁵⁷
- Market Intelligence. "Market intelligence means we have a deep understanding of the entire process of how the account makes money."⁵⁸
- Financial Intelligence. "Financial intelligence means the SAM has a deep understanding of the entire process of allocating and spending money within the strategic account."⁵⁹
- Organizational Intelligence. "Organizational intelligence means the SAM has a deep understanding of the structure of the organization and the structure of the departments that can influence decisions to allocate and spend money on the SAM's products and services."⁶⁰
- Operational Intelligence. "Operational intelligence means the SAM has a deep understanding of how the operating departments use the SAM's products and services to produce operating results."⁶¹

⁵⁶ Workman J.P., Homburg C., Jensen O., Intraorganizational Determinants of Key Account Management Effectiveness, 2003, S.8

⁵⁷ Vgl. Workman J.P., Homburg C., Jensen O., Intraorganizational Determinants of Key Account Management Effectiveness, 2003, S.9

⁵⁸ Hodgdon B., Strategic Account Intelligence, 2002, S.33

⁵⁹ Hodgdon B., Strategic Account Intelligence, 2002, S.33

⁶⁰ Hodgdon B., Strategic Account Intelligence, 2002, S.34

⁶¹ Hodgdon B., Strategic Account Intelligence, 2002, S.34

- Personnel Intelligence. "Personnel intelligence means the SAM has a deep understanding of the people within the strategic account that can influence buying decisions."⁶²
- Competitor Intelligence. "Competi[tor] intelligence means the SAM has a deep understanding of his or her own current standing within the account and the standing of all competitors."⁶³

3.1.4.1 Hypothesis H1: A key account program will have a greater effect in raising profitability if preceded by the successful implementation of a professional competitive intelligence function.

From the literature there appear to be two distinct mechanisms whereby CI can have a positive effect on firm profitability via a positive interaction with KAM. Firstly, effective CI will help us choose the best key accounts to be working with. Secondly, the intimate knowledge of the drivers of the customer's business that effective CI bestows, means that the key account manager will be far more effective in winking out opportunities for new business within the KAM and far more effective at closing new deals with the KAM, than those key account managers that do not have access to good CI. While the author was unable to find a study that directly linked the introduction of a professional CI program to the success of a key account program in raising profitability, the author did find many pieces of research that

1. Show that the introduction of a professional CI program has a positive effect on firm profitability (Subramanian & IsHak 1998)
2. Show that the introduction of a professional CI program has a positive effect on the success of a key account program (Workman, Homburg & Jensen 2003)

⁶² Hodgdon B., Strategic Account Intelligence, 2002, S.35

⁶³ Hodgdon B., Strategic Account Intelligence, 2002, S.36

3. Show that a successful key account program has a positive effect on firm profitability (Workman, Homburg & Jensen 2003)

Although the author was unable to uncover any research that proved a causal link via key account management of the positive effect of a professional CI function on firm profitability, the research uncovered leads us to conjecture that such a relationship does exist. A recommendation for future research would be to investigate such a causal link further.⁶⁴

Subramanian and IsHak performed a study in 1998 whereby “85 firms from BusinessWeek’s America’s 1000 Most Valuable Companies were used to describe the current practices in competitor analysis and to test a hypothesis relating performance to competitor analysis phase.”⁶⁵ The key result from their study was that “[f]irms having advanced systems to monitor their competitors’ activities exhibited greater profitability than firms that did not have such systems.”⁶⁶ The measure used predominantly for company performance is return on assets (ROA), and it was ROA that was used in Subramanian and IsHak’s study. In preface to their study, Subramanian and IsHak explain “the rationale for examining this relationship[the connection between the possession of an advanced CI function and superior firm performance]is that performance is a surrogate for the alignment between an organization’s internal processes (strategy, structure, etc) and the external environment.”⁶⁷ Subramanian and IsHak’s sample of companies used in their study had the following descriptive characteristics (see table 1 below):

⁶⁴ Vgl. Subramanian R., IsHak S., Competitor Analysis Practices of US Companies, 1998, S.21

⁶⁵ Subramanian R., IsHak S., Competitor Analysis Practices of US Companies, 1998, S.7

⁶⁶ Subramanian R., IsHak S., Competitor Analysis Practices of US Companies, 1998, S.7

⁶⁷ Subramanian R., IsHak S., Competitor Analysis Practices of US Companies, 1998, S.13

HOW KEY ACCOUNT MANAGEMENT AND COMPETITIVE INTELLIGENCE CAN CONTRIBUTE TO THE DEVELOPMENT OF CORPORATE STRATEGY

Subramanian & IsHak Study
Descriptive Statistics of Analysis Group

	No. of Firms	Percentage of Total
A. Sales Range		
Less than \$ 1 billion	31	36
\$ 1 – 5 billion	32	38
\$ 5 – 10 billion	12	14
\$ 10 – 25 billion	7	8
More than \$ 25 billion	3	4
---	---	---
	85	100
B. No. Of Employees		
Less than 1000	25	29
1001 – 5000	11	13
5001 – 10000	8	10
10001 – 20000	12	14
More than 20000	29	34
---	---	---
	85	100
C. Classification of firms by phase of competitor analysis		
Phase I (Primitive)	19	22
Phase II (Intermediate)	46	54
Phase III (Advanced)	20	24
---	---	---
	85	100

Subramanian R., IsHak S., Competitor Analysis Practices of US Companies, 1998, S.16

Table 1.

Subramanian and IsHak classified firms in the study according to the phase, or sophistication, of their CI function. "Firms in the study were classified as being in phase I stage (primitive), phase II stage (intermediate) and phase III stage (advanced) using the following characteristics: a distinct and separate group of people involved in the activity, frequency of competitor analysis, and a specific number of people dedicated to performing the activity. This was operationalized in the study by three separate questions. If the firm answered no to two or more questions, it was assigned to phase I; if it answered yes to only two of the three questions it was assigned to phase II; a firm was put in phase III only if it answered all three questions in the affirmative."⁶⁸

The firm performance measure used was ROA, and specifically corporate ROA in comparison to the 3 year mean for the industry in which the firm operated. A low

⁶⁸ Subramanian R., IsHak S., Competitor Analysis Practices of US Companies, 1998, S.15

return on assets was below the industry 3 year mean and vice versa for a high return on assets. The results are shown in table 2 below:

Subramanian & IsHak Study			
Performance Charactersitics and Phase of CI			
Return on Assets	No. of Firms in Phase		
	Primitive	Intermediate	Advanced
Low	11	21	4
High	8	25	16

Subramanian R., IsHak S., *Competitor Analysis Practices of US Companies*, 1998, S.19

Table 2.

Subramanian and IsHak stated that there was a statistically supported positive relationship between firm performance and higher sophistication levels of CI in the 85 firm sample.⁶⁹ They also go on to point up a potentially synergistic relationship between quality of a sales organization and the gathering/quality of CI. "A firm's salespeople play an external boundary spanning role (Pfeffer/Salancik 1978) and as such spend considerable amounts of time interfacing with their customers. It is logical to use them as a source of information about competitors."⁷⁰

Workman, Homburg and Jensen in their 2003 paper posit that "activity proactiveness is positively related to KAM effectiveness"⁷¹. While they use the term activity proactiveness rather than CI, there are numerous papers written by practitioners that maintain that activity proactiveness depends entirely on good CI.

⁶⁹ Vgl. Subramanian R., IsHak S., *Competitor Analysis Practices of US Companies*, 1998, S.21

⁷⁰ Subramanian R., IsHak S., *Competitor Analysis Practices of US Companies*, 1998, S.20

⁷¹ Workman J.P., Homburg C., Jensen O., *Intraorganizational Determinants of Key Account Management Effectiveness*, 2003, S.9

Bill Hodgdon, President of Hodgdon Consulting Services consulting in key account management practices states "[...]superior intelligence helps the SAM bring more of his or her own corporate resources to bear on the right people within the account at the right times."⁷² Salojärvi, Sainio and Tarkiainen confirm this in their 2010 paper. "Customer knowledge utilization could be considered as the driving force of key account management in that it lays the foundation for all strategic decision-making concerning the key account relationship."⁷³ This concept is further confirmed by Abratt and Kelly in their 2002 paper. "Knowledge and understanding of the key account customer's business were viewed by both parties as very important. The primary reason for understanding the key account customer's business was to anticipate their future needs. Hannah noted that the understanding of the key account customer's business was a critical success factor in the KAM relationship."⁷⁴ The Workman, Homburg and Jensen 2003 study goes on to confirm that their "[h]ypothesis 2, which posits a relationship between activity proactiveness and KAM effectiveness, is also supported."⁷⁵ Finally, in regards to corporate profitability, the Workman, Homburg and Jensen 2003 study states that "[o]ur results also support our hypothesized relationships between KAM effectiveness, performance in the market, and profitability."⁷⁶ Thus, the author concludes that there is strong evidence that would point to the correctness of hypothesis H1. However to be able to confirm H1 with certainty, studies of the effect of the introduction of a key account program, with and without prior introduction of a professional CI function, on profitability would be needed.

⁷² Hodgdon B., Strategic Account Intelligence, 2002, S.32

⁷³ Salojärvi H., Sainio L., Tarkiainen A., Organizational factors enhancing customer knowledge utilization in the management of key account relationships, 2010, S.1396

⁷⁴ Abratt R., Kelly P.M., Customer-supplier partnerships, 2002, S.474

⁷⁵ Workman J.P., Homburg C., Jensen O., Intraorganizational Determinants of Key Account Management Effectiveness, 2003, S.13

⁷⁶ Workman J.P., Homburg C., Jensen O., Intraorganizational Determinants of Key Account Management Effectiveness, 2003, S.13

4 Corporate Strategy

4.1 What is a corporate strategy?

A strategy is a way to achieve something. A corporate strategy is a way a company achieves something. "Strategic management is a way of conducting the organization that has as its ultimate objective the development of values, managerial capabilities, organizational responsibilities, and administrative systems that link strategic and operational decision making, at all hierarchical levels, and across all lines of authority."⁷⁷ Here we have already pointed up the fact that there are a number of things a company would like to do. This is the case because there are a number of people involved in the running of a company. Who are these people? These are its owners, its managers, its employees, its customers, its neighbors and society at large. All these people are collectively known as "stakeholders" in the business, and as their number and type are various, the goals of the business are therefore various.⁷⁸ As what a company wants to achieve is a complex question to answer, many strategists have asked perhaps the simpler question "what is the company good at?" It seems logical that everyone in the company will enjoy doing something that they are good at. It also seems logical that the shareholders will be pleased if the company does something it is good at, as that way, the company and they are more likely to make money. Others outside the company, the company's neighbors and customers will probably also be pleased, because somebody that does something they are good at will produce a high quality result which tends to be a benefit to all.⁷⁹ There is nothing more

⁷⁷ Fleisher C.S., Bensoussan B.E., Strategic and Competitive Analysis, 2003, SS. 2-3

⁷⁸ Vgl. Fleisher C.S., Bensoussan B.E., Strategic and Competitive Analysis, 2003, SS. 298

⁷⁹ Vgl. Fleisher C.S., Bensoussan B.E., Strategic and Competitive Analysis, 2003, SS. 301

annoying for most stakeholders, than having to interface in some way with amateurs. The amateurish company / corporate management often acts in ways that makes the others of the company's stakeholders bear the costs of their incompetence, even if this is only a short term phenomenon.⁸⁰ It is therefore fair to say that a generic goal of a company is to find something to do that fits well with its abilities. If abilities (skills) can be classified as a resource amongst a range of other resources within a company, then one can say that finding something to do that fits well with the company's resources is an objective. Of course that thing, whatever it is, has to be wanted by the waiting world or target market. Thus corporate strategy development is often seen as starting with trying to find a goal that combines what we do well (our strengths) with opportunities in the landscape. Such opportunities are things that the market is calling for, but are not being yet provided in the form required by any or a sufficient quantity of suppliers. Such a matching process has been given the name "SWOT" analysis.⁸¹

If we go back to the notion that a corporate strategy is about a company achieving something, we realize that we need to be a little more stringent about what precisely it is we want to achieve. This depends in part upon which of the stakeholder perspectives we are taking when considering this. We have the customer, supplier, shareholder, employee and wider societal perspectives to choose from.⁸² If we take as a base-line, however, that a company, *ceteris paribus*, will want to ensure healthy long term profitability, we can start to consider how we best go about ensuring that as a minimum, before we consider other objectives. The process of executing the transactions of supplier supplying customer, occur in a market.⁸³ The character of that market is important to analyze because, depending on some key characteristics, the market will be either a good place or not such a

⁸⁰ Vgl. Fleisher C.S., Bensoussan B.E., Strategic and Competitive Analysis, 2003, SS. 301

⁸¹ Vgl. Barney J., Firm Resources and Sustained Competitive Advantage, 1991, S.99

⁸² Vgl. Fleisher C.S., Bensoussan B.E., Strategic and Competitive Analysis, 2003, SS. 300

⁸³ Vgl. Mankiw N.G., Taylor M.P., Grundzüge der Volkswirtschaftslehre, 2008, S.73

good place for making money in.⁸⁴ If we are going to make any money at doing that chosen "thing" that we do well, not only in the short term, but also in the long term, there are a set of factors describing a market that we must observe and ascertain. These things are the factors or aspects to a market which will determine whether we can do what we intend, and continue making a sufficient profit at it over the long term. Such factors have been christened by Michael Porter the "five forces" of competition.⁸⁵

4.2 Porter's Five Forces Model

These five forces determine how intense the competition is for the added value (or surplus) generated by the chosen product or service. If a competitor is defined as anyone who attempts to force us to relinquish our profit margin to them, either in whole or part, the five forces of competition are a classification of the five types of competitor for said profit margin (surplus).⁸⁶ These competitors are suppliers, customers, competitors (in the classical sense), potential new entrants to the industry and suppliers of alternative products (substitutes for the industry's product). The competitive forces are themselves therefore

- Supplier power
- Customer power
- The power of substitute products
- The potential power of new entrants
- The level of competitive rivalry between industry incumbents

⁸⁴ Vgl. Porter M.E., *Competitive Strategy*, 1998, S.33

⁸⁵ Vgl. Porter M.E., *Competitive Strategy*, 1998, SS.3-4

⁸⁶ Vgl. Porter M.E., *Competitive Strategy*, 1998, S.5

Each of these five forces gnaws away at the surplus (profits) of market incumbents, dependent upon the force's strength. Figure 9 below illustrates the five competitive forces.

The Five Forces of Competition According to Porter

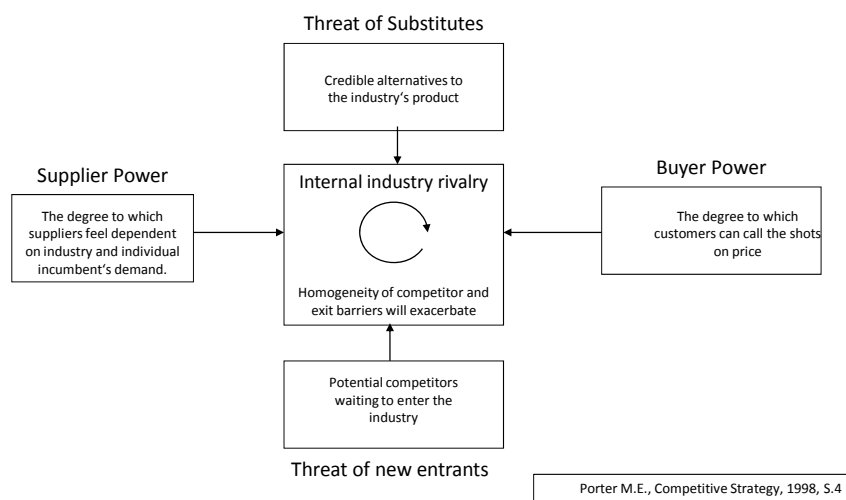


Figure 9.

Quite how strong each of these forces is, depends upon the following factors:

Supplier Power

The strength of supplier power depends upon supplier concentration and the availability of viable substitutes for the supplier's product. It also depends on what percentage of the supplier's turnover is accounted for by supply to the firm's industry.

Customer Power

The strength of customer power depends on customer concentration relative to the concentration of industry incumbents, and whether those customers have a viable substitute to the product the firm is offering.

The Power of Substitutes

This is dependent upon the customers' costs of switching to the alternative product.

The Power of New Entrants

This is dependent on the barriers faced by new entrants when trying to enter the incumbent's industry. Such barriers may be large investments, obscure and difficult to imitate know-how and so on.

The Level of Competitive Rivalry between Industry Incumbents

This is dependent upon the level of commitment of the incumbents to staying in their industry. Such commitment can be built upon real difficulty in exiting an industry caused by so called barriers to exit faced by existing firms. It can also be based on psychological barriers to exiting, such as firm tradition. Real exit barriers might be de-commissioning costs (if high) when closing down or converting a piece of plant. Psychological barriers may be, for example, sunk costs.⁸⁷ In addition, the more homogeneous the product and competitors, the greater the intensity of direct price competition.

4.3 Dealing with the Five Forces

A fundamental question which will affect the company's ability to make healthy long term profits will be the one of choosing in which market we should compete. A company should choose a market in an industry in which the five competitive forces above are not so strong that, while an opportunity at first may appear attractive, within a short period after market entry, profitability erodes to unacceptable levels due to operation of one or several of the five forces illustrated

⁸⁷ Vgl. Porter M.E., Competitive Strategy, 1998, SS.7-29

above.⁸⁸ A fundamental starting point for a strategy is therefore the analysis of one, or many, target industries to understand their attractiveness along the lines of the five competitive forces. Returning to the question of finding a fit between the company's resources and that thing it would consider doing, a fundamental criteria therefore will be the ways in which the firm's innate resources can be used to address each of the five competitive forces in the industry seen as a potential target for entry.⁸⁹ Specifically, can the firm use its resources or strengths to effectively alter the working of one or more of the five competitive forces such that it or they start working in its favor? Examples might be as follows:

Supplier Power

Could the firm credibly threaten to back-integrate into the supplier's market and become a credible competitor to existing suppliers? Alternatively could the firm develop a process that effectively downgraded the significance of or even replaced the supplier's product? Corporate size, financial muscle, prior experience (know-how) and / or R&D base might be resources that could make such a strategy possible.

Customer Power

Is the firm able to develop a product that is found both highly desirable by the customer base but which is also not imitable by competitors because its basic technology is protected by patents? R&D and access to legal resources may be key here.

Power of Substitutes

Customer centered innovation ensures that we are satisfying the basic need better than any competitor or any substitute product. The resources the firm may possess to make that a reality may be strong relational skills and strong relationships within a network in the market. Here, potent relational skills

⁸⁸ Vgl. Porter M.E., *Competitive Strategy*, 1998, S.6

⁸⁹ Vgl. Porter M.E., *Competitive Strategy*, 1998, S.6

(including key account management skills) and professional CI programs can be effective resources.

Power of New Entrants

Being able to erect barriers to entry is a potent antidote to this type of competitor. Examples of such barriers may be high investment costs, the tying up by the first mover of all the lucrative distribution channels, or difficult to imitate / complex and subtle know how. Particular know-how or existing firm activities that allow entry at lower cost than competitors may represent the resources needed here. In addition, having attained a volume-based cost leadership position (economies of scale), new entrants could be deterred, as the capacity investment necessary to achieve cost-parity, could be uneconomic for new entrants to attempt.⁹⁰

The Level of Competitive Rivalry

The removal of exit barriers will help here. For example, financial resources mean that a firm may be able to buy its competitors out.

In dealing with the five forces, Michael Porter identifies that there are fundamentally three basic strategies that will be effective. These three basic strategy types are

- Cost leadership
- Differentiation
- Focus⁹¹

These three generic strategy types are illustrated and defined in figure 10 below:

⁹⁰ Vgl. Porter M.E., Competitive Strategy, 1998, S.324

⁹¹ Vgl. Porter M.E., Competitive Strategy, 1998, S.35

The Three Generic Strategy Types According to Porter

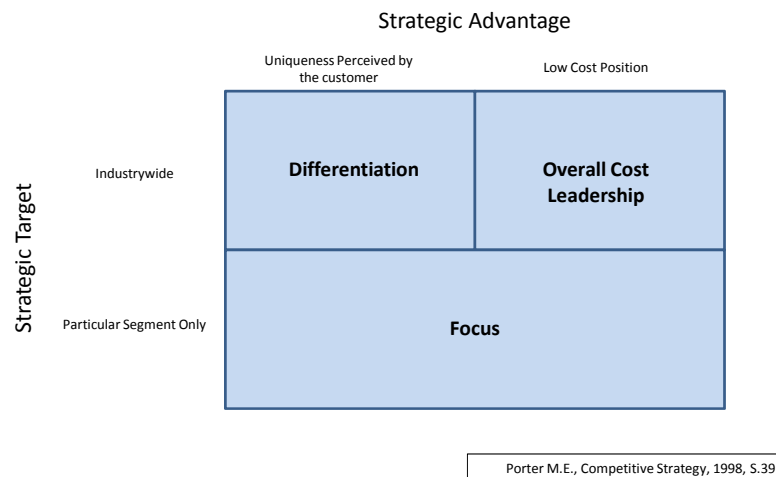


Figure 10.

4.3.1 Overall Cost Leadership

This strategy recognizes that there are such things as a learning curve and economies of scale.⁹² Cost savings are generated by both aspects based on volume. The existence of a learning curve ensures that the more parts you make, the cheaper the parts will get, with the last one being made more cheaply than any of the previous ones. This is due to the accumulation of experience. On the other hand, the existence of scale economies says that there are efficiency gains available as a result of more sophisticated machinery and rationalized work practices if one can manufacture more per unit of time, up to some ceiling volume or production rate. Above that rate, scale diseconomies (problems of management) can start to

⁹² Vgl. Porter M.E., Competitive Strategy, 1998, S.35

take their toll.⁹³ The strategy of overall cost leadership recognizes these two factors, and tries to be the first to market and to serve as broad a market as possible in order to reap the rewards of a head-start and greater volume than anyone else. This strategy is so potent because, if successful, the company practicing this strategy has the lowest unit production cost, *ceteris paribus*, and is thus in a position to win any pricing battle. The general knowledge of this can be enough to discourage others from even attempting such a battle, which brings its own advantages.

4.3.2 Differentiation

The differentiation strategy involves the company attempting both to produce a product that satisfies the needs of the market more completely than that of any of its rivals, and to formulate a solution that achieves this that is somewhat unique. This company's products are not a copy of their competitors' and attempt to be plain and simply better at meeting customer's needs. The reason for this approach is to shift the focus of competition away from being based purely on price. Given that the majority of the needs being satisfied are the same for all competitors in the market, this type of competitor's unit cost must be in touch with that of its competitors (close), even if not the lowest. This strategy, however, cannot be used as an excuse not to be looking at one's cost base. A successful differentiation strategy is extremely tough to execute, and the product benefits must be clear and not immediately copy-able by the competition – which is difficult in this age of low cost rapid prototyping technology.⁹⁴

⁹³ Vgl. Mankiw N.G., Taylor M.P., Grundzüge der Volkswirtschaftslehre, 2008, S.314

⁹⁴ Vgl. Fleisher C.S., Bensoussan B.E., Strategic and Competitive Analysis, 2003, SS. 169

4.3.3 Focus

The focuser looks at a market as a whole and tries to segment it into homogeneous portions. The reason for this is that there will be differences in customer requirements between customers in one market, and while the broad market cost leaders and broad market differentiators try to address the needs of the market as a whole. Theoretically therefore, a "focus" strategy focusing on the needs of only one particular portion, may well be able to deliver a product better suited to that one group in the market than any of the broad market offerings, and thus come to dominate that particular segment.⁹⁵ The focuser will be a lower volume supplier and thus will not enjoy the economies of scale of the broader market suppliers. The additional value to their segment such suppliers bring must be valued by that segment more highly than the likely price penalty incurred by customers buying their products.

Michael Porter identifies that any strategy that a company chooses must be a variation on one of the above three big strategy themes, taking into account the requirements laid down in each strategy theme. Porter describes any strategy that does not firmly fall in to, and fulfill the key requirements of, one of the three approaches described above, as being doomed to failure over the longer term. Porter's reasoning for this is that any strategy that does not firmly sit in and fulfill the requirements of one of these strategy types will be extremely vulnerable to other company strategies that do fall firmly into one of the three strategy categories described. Companies with such indefinite strategies are described by Porter as being "stuck in the middle" and in danger of being out-priced, out-differentiated and out-focused by its rivals.⁹⁶ The true source of strength of competitors that do develop strategies that firmly sit in one of the three camps, is that such definiteness starts to turn the workings of the five competitive forces in

⁹⁵ Vgl. Fleisher C.S., Bensoussan B.E., Strategic and Competitive Analysis, 2003, SS. 162

⁹⁶ Vgl. Porter M.E., Competitive Strategy, 1998, S.41

that competitor's favor, or at least starts to neutralize the worst effects of some of the forces that tend to not act in their favor. By the same token, the lack of definiteness of the "stuck in the middle" competitor, is that they are the most vulnerable to the worst workings of the five forces, and fail to turn the workings of any of the five forces to their favor. An example might be barriers to entry. A competitor successfully following a cost leadership strategy may have developed such an economies of scale advantage that there is neither the incentive nor the unsatisfied demand left in the market to warrant an actual or potential competitor adding such a scale-matching level of capacity.

A good corporate strategy is therefore something that gets us where we want to be, by getting us somewhere that appreciates what we are good at, really needs a product that those particularly good resources we have can make, and which respects the principles, articulated by Porter, of the five forces of competition, by attempting to turn some or all of the five forces' workings to our advantage.

4.4 The Value Chain

What has been described so-far are the big principles on which any sound strategy must be based. If a strategy fails to take account to any of those principles, its long term chance of survival is reduced. The question still remains however, "how does the company go about putting any of these big generic strategy types into practice?" The answer according to Michael Porter is an analysis of the "value chain".⁹⁷

The value chain is the mechanism by which value is generated through a chain of linked processes. Such processes operate, either directly or indirectly, upon inputs to transform them into outputs of value to a customer. The processes, as

⁹⁷ Porter M.E., Wettbewerbsvorteile, 1999, S.63

mentioned, are either of a direct (primary) or an indirect (supporting) nature. Direct processes are processes in the value chain that directly impinge upon the manufacture of the good or service. Examples of direct processes might be inbound logistics or manufacturing (operations). Indirect processes are processes supporting the effectiveness of the direct processes. An example of this might be research and development, which through its efforts, can develop a product that is easier to manufacture (helps the operations process) and is easier to sell (helps the marketing and sales process). Figure 11 below illustrates a generic value chain:

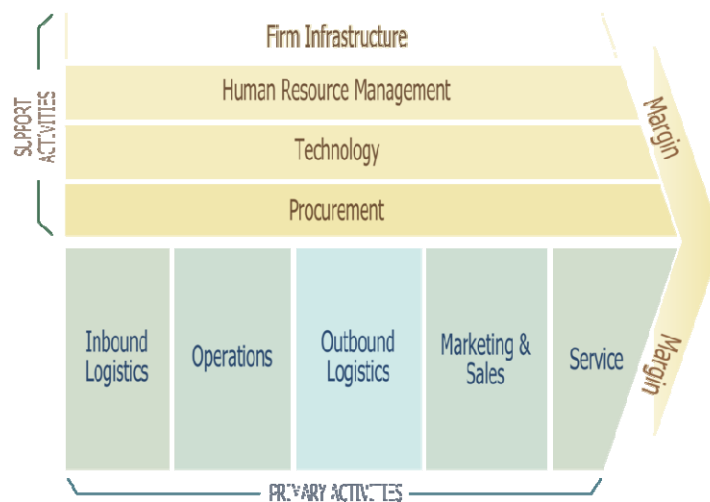


Figure 11. "The Value Chain"

Porter M., Wettbewerbsvorteile, 1998, S.66

The direct activity groupings are inbound logistics, operations, outbound logistics, marketing and sales, service. Each of these broad groupings could contain any number of individual departments. Alternatively, parts of a single broad grouping could be spread across more than one department. The indirect activity groupings are firm infrastructure, human resource management, technology, procurement. The indirect activities are shown as extending across the length of the value chain as their influence reaches into each of the direct activity groupings.

4.4.1 SWOT Analysis

A value chain can be developed at the level of the individual company. However there is also a value chain at the level of an entire industry.⁹⁸ The industry value chain is an agglomeration of the value chains of each of the industry participants. The ground rules of an industry can be found embedded in the industry's value chain. The particular ways in which activities are carried out, and the necessary investments to operate in that fashion, represent the status quo of the industry. The strengths and weaknesses of an individual company, generated in so-called SWOT analysis, are strengths and weaknesses in a firm's value chain in relation to the industry value chain.⁹⁹ An understanding of the implication of differences in an individual firm's (versus the industry's) value chain, can only be achieved by referencing the effect of that difference on the customer's value chain. This is so because, according to Porter, the roots of strategic effectiveness, be the result a cost advantage or product benefit, can be found in what he calls "value chain linkages".¹⁰⁰ Potential advantages to the customer that can be offered by our value chain vs that of the general industry, are the so called "opportunities" in SWOT analysis and are embodied by such potential value chain linkages.

4.4.2 Value Chain Linkages

The key to the effective use of value chains is to search both the company's and the customer's value chains for linkages. These linkages can be between activities within the firm's own value chain and between activities in the firm's and the firm's customer's value chain. Such linkages are influences that the one activity has on the

⁹⁸ Vgl. Porter M.E., *Competitive Strategy*, 1998, S.63

⁹⁹ Vgl. Porter M.E., *Competitive Strategy*, 1998, S.65

¹⁰⁰ Vgl. Porter M.E., *Competitive Strategy*, 1998, S.80

other. As already mentioned, activities within research and development (technology) can make the manufacturing of a product easier (operations). This would be an example of a linkage within a firm's own value chain. However, more effective transfer of demand information from the customer's manufacturing planning (operations activity at the customer) directly into the supplier's manufacturing planning (operations activity at the supplier) can reduce inventory both at the supplier (outbound logistics) and the customer (inbound logistics), thus cutting costs for both.¹⁰¹ This latter would be a linkage between the value chain of the supplier and the customer. It is the effectiveness of the supplier's value chain relative to the effectiveness of that of the general industry in supporting the customer, which highlights the firm's strengths and opportunities. Value chain differences between the firm and that of the general industry should therefore be evaluated in terms of the effect of these differences on the customer's value chain. "Differenzierung entsteht also im Grunde dort, wo ein Unternehmen durch seinen Einfluß auf die Wertkette des Abnehmers für ihn einen Wert schafft."¹⁰²

4.5 The effect of strategy on corporate structure

According to Chandler, firm structure follows strategy.¹⁰³ According to Porter, when a linkage between two activities in a value chain is discovered, the two activities should be coordinated so that the overall outcome of those linked activities is optimized. The challenge is that the activities in question may be partly located in one department, and partly located in another. This, according to Porter, can be

¹⁰¹ Cohen S., Roussel J., Strategisches Supply Chain Management, 2006, SS.13-15

¹⁰² Porter M.E., Wettbewerbsvorteile, 2000, S.86

¹⁰³ Vgl. Mullins L.J., Management and organisational behaviour, 2009, S.565

particularly the case for indirect activities. For example the procurement activity can be located across most of the functional departments of a company. Given the key to developing strategic advantages is the coordination of these value chain linkages, then, at least for the linkages to be found within a company's own value chain, "Vielleicht kann ein Unternehmen die Abgrenzung seiner Einheiten besser auf die Quellen seiner Wettbewerbsvorteile abstimmen und für ausreichende Koordinierung sorgen, wenn es seine Organisationsstruktur an der Wertkette und den Verknüpfungen innerhalb dieser Kette und mit Lieferanten oder Vertriebskanälen ausrichtet."¹⁰⁴ Michael Hammer and James Champy in their book „Re-Engineering the Corporation“ confirm that "[p]eople involved in a process look inward toward their department and upward toward their boss, but no one looks outward towards the customer. The contemporary performance problems that companies experience are the inevitable consequences of process fragmentation."¹⁰⁵ It is thus the re-integration of processes within the value chain which supports the coordination of such linkages.¹⁰⁶ A tool for monitoring the implementation of measures designed to coordinate linked activities in the value chain is the balanced scorecard (BSC) [see section 5.1]. The causes of problems are often to be found in processes, not in individual departments, and as such the BSC tries to mirror the fact that companies are viewed today more like integrated systems rather than a structure of individual departments. "Die Organisation in Informationszeitalter arbeitet mit integrierten, die herrkömmlichen Geschäftsfunktionen übergreifenden Geschäftsprozessen."¹⁰⁷ The way organizations are managed has to reflect this, and specifically management reporting must focus on the linkages that drive corporate success. Such linkages are the causal relationships that get the business where it needs to be. Traditional management reporting has however militated against this

¹⁰⁴ Porter M.E., Wettbewerbsvorteile, 2000, SS.95-96

¹⁰⁵ Hammer M., Champy J., Reengineering the Corporation – A Manifesto for Business Revolution, 1994, S.28

¹⁰⁶ Porter M.E., Wettbewerbsvorteile, 2000, S.89

¹⁰⁷ Kaplan R 1997 , BSC, p 4

as "Nutzer des Berichtswesens blicken in die Zukunft, während das Berichtswesens von heute in die Vergangenheit schaut. Obwohl Informationen über die Vergangenheit nützliche Indikatoren für zukünftige Leistungen sind, brauche Unternehmen auch vorwärts gerichtete Information."¹⁰⁸

4.6 The Essence of Strategy Development

In his 1994 paper, "The Fall and Rise of Strategic Planning", Henry Mintzberg identifies that strategic planning as a corporate activity, had not delivered the results hoped for. Mintzberg puts this down to the process of strategy development being confused with both data analysis and strategic implementation. According to Mintzberg, a strategy is a vision of a possible future. It is the end result of a creative human process involving the synthesis of a vision out of a multitude of different inputs.¹⁰⁹ Such inputs include personal experience, serendipitous events, learning and analysis. He lays bare what he describes as the three fallacious assumptions behind "formal" strategic planning. These are:

- The fallacy of prediction
- The fallacy of detachment
- The fallacy of formalization

The fallacy of prediction is that the discontinuities that are often the basis of strategic change can be predicted with any confidence. Mintzberg states that history shows us that any form of prediction of the significance of coming events and thus the early identification of the discontinuities that lead to strategic change are extremely difficult, and mostly unreliable.¹¹⁰ Such prediction is the key skill of

¹⁰⁸ Kaplan R 1997 , BSC, p 37

¹⁰⁹ Vgl. Mintzberg H., The Fall and Rise of Strategic Planning, 1994, S.110

¹¹⁰ Vgl. Mintzberg H., The Fall and Rise of Strategic Planning, 1994, S.110

management, but to have any chance of success must be a continuous process and not part of a formal strategic planning process. Indeed one of the reasons why continuous competitive intelligence gathering is important is that "Diskontinuitäten in der Umwelt zu entdecken, v.a. sie unternehmensspezifisch in ihrer Auswirkung richtig zu interpretieren, stellt sich als erfolgsentscheidende Fähigkeit des Managements heraus."¹¹¹

The fallacy of formalization and detachment is the idea, that the formation of a strategic vision can be achieved by anyone, including formal strategic planners, as long as that person is supplied with sufficient data analysis. "Formalization implies a rational sequence, from analysis through administrative procedure to eventual action. But strategy making as a learning process can proceed in the other direction too. We think in order to act, to be sure, but we also act in order to think."¹¹² The implication here is that only those who carry out the running of the business, i.e. the line managers, have the opportunity to "learn by doing" and as such should be the source of the strategy.¹¹³ Strategic planning is a process of synthesis, most complex in nature, utilizing both quantitative and qualitative inputs and requiring knowledge. Mintzberg concludes that a formal system can never replace the spark of intuitive genius that can combine all these inputs into a strategic vision. He also concludes, that it is likely that only strategic practitioners will have a chance of combining all these necessary qualities in one person.

Mintzberg does not negate the idea that formal planners have a role to play in the strategic planning process. He simply says that the roles they have to play should be external to the creation of the strategic vision. He sees two areas in which they can contribute:

1. In the provision of thoughtful and thought provoking analysis of business data

¹¹¹ Schertler, W., Strategische Umweltanalyse, 2004, S.1477

¹¹² Mintzberg H., The Fall and Rise of Strategic Planning, 1994, S.111

¹¹³ Vgl. Mintzberg H., The Fall and Rise of Strategic Planning, 1994, S.110

2. In the programming of an already conceived vision and turning that vision into action plans¹¹⁴

The principal research scientist at Yahoo! Research, Duncan Watts, states "grasping the limits of your intuition is not the same thing as saying the world is completely unpredictable"¹¹⁵. The role of the data analyst in terms of uncovering relationships and mechanisms within a business model is emphasized by Watts. Such mechanisms provide clues to the existence of linkages discussed earlier and such analysis "change[s] ...the mental models that...decision makers carry in their heads."¹¹⁶ Thus the analyst can provide inputs to the strategist based on analysis (and in the case of e-businesses like Yahoo!), experimentation also, that helps to guide and inspire the strategist.

4.7 How KAM and CI Gathering contribute to Strategic Planning

4.7.1 The Contribution of KAM

In the case of the supplier's most important accounts, it is the KAM who must, at a minimum, make key inputs into the vision, if not make the vision themselves. Key account management is all about holistically managing a chunk of the firm's business with one of the firm's largest accounts. The key account manager is a business leader within the firm, in their own right.

¹¹⁴ Vgl. Mintzberg H., The Fall and Rise of Strategic Planning, 1994, S.114

¹¹⁵ Ridgeway S., Hayes J., Watts D., How we see it, 2011, S.10

¹¹⁶ Mintzberg H., The Fall and Rise of Strategic Planning, 1994, S.113

As discussed in section 2.1.3, studies have identified the following as the key drivers in achieving KAM effectiveness and KAM program success:

- A deep understanding of the key account's business
- The support of the key account program by the KAM's own top management
- Relationship coordination skills both in the relationship between supplier and key account (relationship-specific assets) and within the supplier itself, (sales person navigation (SpN) skills and esprit de corp)
- The existence of a master-plan for the development of the account
- Having the KAM report directly to top management and not being part of the ordinary sales organization

All aspects of the KAM role can therefore be described as strategic. Solely the role reporting structure recommended by the literature would indicate that the KAM role is strategic. However all the other processes, in which the KAM should be involved to be a success, imply a strong influence on strategy formation. Indeed one of the main reasons for failure of the KAM role is leaving the reporting structure a purely operational one, with reporting being into ordinary sales management.¹¹⁷ Referring back to the words of Mintzberg "We think in order to act, to be sure, but we also act in order to think." It is the "learning by doing" aspect of the KAM role which should provide an important feedback into strategic thinking.

An example of a specific task that illustrates the strategic role of KAM and the input it can make into product strategy, is in product development, and specifically in the form of the "lead user approach".

¹¹⁷ Vgl. Wengler S., Ehret M., Saab S., Implementation of Key Account Management, 2005, SS.106-107

4.7.1.1 A Specific KAM Activity Supporting Strategic Planning – The Lead User Approach

The lead user approach is a special example of VOC. It is the voice of an account considered of significant strategic importance for the industry as a whole. As such it links the KAM and six-sigma approaches, with the latter's focus on CTQs (factors critical to quality). Heike Kurzmann in her paper "Kundenintegration in Innovationsprozesse" recognizes that classic market research, even primary market research, has failed to be reliable in helping to find companies the innovations needed for the future. "Durchschnittskunden [...]immer vor dem Hintergrund Ihrer "Real-World Experience" Bedürfnisse und potenzielle Lösungen identifizieren. Es fällt diesen Kunden extrem schwer sich von diesen Erfahrungen zu lösen und sich neue Produkteigenschaften oder -anwendungen vorzustellen. Eine zu starke Orientierung an diesen Kunden könnte die Innovationskraft der Unternehmen sogar negativ beeinflussen."¹¹⁸ Because of the dual difficulties of finding adequate market information, and when primary market research of a more classic nature is carried out, getting any really innovative insight, she advocates the so called "lead-user" approach. According to Kurzmann, "Lead User, definiert [man] als Nutzer eines Produktes, deren aktuelle Bedürfnisse den Bedürfnissen der breiten Masse am Markt für Monate oder Jahre voraus sind, bezeichnet von Hippel (1986, S.791) auch als "Need-Forecasting Laboratory" für die Marktforschung."¹¹⁹ In the market for industrial business to business products the lead-user approach would involve identifying customers within the industry with a track record themselves of being both innovative and successful at being innovative. The lead user approach would indicate in industrial business to business markets trying to partner with particular customers who themselves could be given the label "lead-users". These companies have their finger demonstrably on the pulse of their markets, and as such will lead us forwards in an orientation that may well set us up to be ahead of our

¹¹⁸ Kurzmann H., Kundenintegration in Innovationsprozesse, 2008, S. 483

¹¹⁹ Kurzmann H., Kundenintegration in Innovationsprozesse, 2008, S. 476

competitors in the supplier market.¹²⁰ Herrmann, Tomczak and Befurt have identified that there are four possible combinations of innovation as shown in figure 12 below:

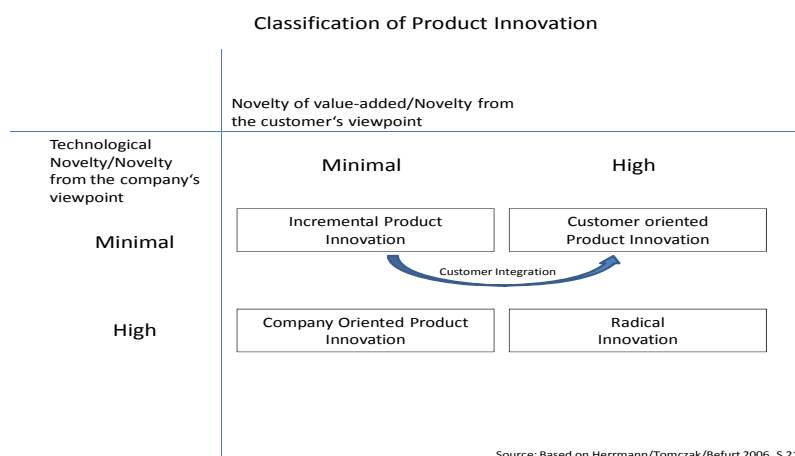


Figure 12.

Innovations can be innovative in terms of the basic technologies that are used in their manufacture, or they can be innovations in terms of the features and benefits that they bring to customers (the added value). The level of novelty of the innovation can be something perceived more by the business, or it can be something primarily perceived by the customer, or it can be seen as a novelty both by supplier and customer. The four possible combinations of these two aspects of novelty are shown in figure 12 above. Of the four possible combinations of the two types of novelty, named incremental product innovation, customer oriented product innovation, company oriented product innovation and radical product innovation, it is customer oriented product innovation that requires, according to Kurzmann, the integration of a lead user into the new product development process. Basic technological innovations are more rare and cannot be relied upon to regularly appear and form the basis of a clear advantage versus the competition's offering.

¹²⁰ Vgl. Kurzmann H., Kundenintegration in Innovationsprozesse, 2008, S. 476

Kurzmann identifies the potential that lead users embody in terms of finding new product characteristics, highly visible to the user and which are perceived by the user as a considerable step forwards. It is such customer oriented product innovations that are the target for achievement when one involves lead users in the new product development process.¹²¹ Key accounts are the source of such strategically important lead users, and it is the management of those lead-user relationships that is the responsibility of the KAM. This is an example of how the KAM makes an input directly into the development of strategy.

4.7.2 The Contribution of C.I.

Competitive intelligence makes a contribution to strategy formation both indirectly through the contribution to KAM described in section 3.1.4, and directly by helping managers deal with the problem of uncertainty in strategy formation. Courtney, Kirkland and Viguerie in their article "Strategy under Uncertainty" identify that when developing strategies, most strategic decisions require input of at least some information that can be known (or found out) with certainty and the making of some assumptions about uncertain outcomes, this uncertainty they label "residual uncertainty".¹²²

4.7.2.1 Residual Uncertainty

The nature of residual uncertainty they categorize into four levels:

Level one

¹²¹ Vgl. Kurzmann H., Kundenintegration in Innovationsprozesse, 2008, S. 477

¹²² Vgl. Courtney H.G., Kirkland J., Viguerie S.P., Strategy Under Uncertainty, 1997, S.82

"The residual uncertainty is irrelevant to making strategic decisions at level one, so managers can develop a single forecast that is a sufficiently precise basis for their strategies."¹²³

Level two

"The future can be described as one of a few discrete scenarios at level two. Analysis can't identify which outcome will actually come to pass, though it may help establish probabilities."¹²⁴

Level three

"A range of potential futures can be identified at level three. A limited number of key variables define that range, but the actual outcome may lie anywhere within it."¹²⁵

Level four

"A number of dimensions of uncertainty interact to create an environment that is virtually impossible to predict at level four. In contrast to level three situations, it is impossible to identify a range of potential outcomes, let alone scenarios within a range."¹²⁶

Strategic change migrates from what Courtney, Kirkland and Viguerie call an "adaptor posture" in level one through to a "shaper posture" in level four. The adaptor concentrates on making adaptive changes to its offering as typified by the lead user approach to product development described above. The shaper looks to influence the structure of the entire market, trying to influence the very ground rules of the five forces described in section 4.2.¹²⁷

¹²³ Courtney H.G., Kirkland J., Viguerie S.P., *Strategy Under Uncertainty*, 1997, S.82

¹²⁴ Courtney H.G., Kirkland J., Viguerie S.P., *Strategy Under Uncertainty*, 1997, S.82

¹²⁵ Courtney H.G., Kirkland J., Viguerie S.P., *Strategy Under Uncertainty*, 1997, S.83

¹²⁶ Courtney H.G., Kirkland J., Viguerie S.P., *Strategy Under Uncertainty*, 1997, S.84

¹²⁷ Vgl. Courtney H.G., Kirkland J., Viguerie S.P., *Strategy Under Uncertainty*, 1997, S.89

In all but "level one" residual uncertainty, the role of CI in making the risks at each level manageable is emphasized. In level two and three scenarios, the emphasis is placed upon identifying so called "trigger variables" that should be identified and monitored. Trigger variables are the signs that would indicate the industry is settling on one out of the possible ranges of scenarios.¹²⁸ At level four residual uncertainty "situation analysis[...] is highly qualitative.[...]managers need to catalog systematically what they know and what it is possible to know."¹²⁹ This latter task is also the responsibility of a CI function.

¹²⁸ Vgl. Courtney H.G., Kirkland J., Viguerie S.P., *Strategy Under Uncertainty*, 1997, S.83

¹²⁹ Courtney H.G., Kirkland J., Viguerie S.P., *Strategy Under Uncertainty*, 1997, S.85

5 Alignment between Customer and Supplier

Alignment between customer and supplier is really the central theme of this paper. If alignment ends up meaning that there is a fit between the strategy of the supplier and the strategy of the customer, in that the supplier is focusing on the things that are really relevant and important to the customer and the customer needs things that correspond to the core competencies of the supplier, then the customer and their supplier are well aligned.¹³⁰ One could also say that there is a strategic fit between customer and supplier. Key account management is all about understanding what needs to be done in the customer-supplier relationship so that those things are done that are needed to make a potential alignment turn into an actual one.¹³¹ The emphasis in the last sentence is, though, on the word "potential". There first has to be an analysis that leads to an informed decision about which customers are the right ones for us to be working with, that is to say, the customers that have "potential". As will be discussed in section 9, customer relationship management (CRM) contains tools for evaluating this, but in addition an important input into this also comes from competitive intelligence (CI). As previously discussed, competitive intelligence is an important input into strategy development, and an important precursor to specific activities of key account management.

We will now review a framework or philosophy that promotes customer-supplier alignment, and within which all the activities of the company, (our focus here being

¹³⁰ Vgl. Fleisher C., Bensoussan B., Strategic and Competitive Analysis, 2003, S.65

¹³¹ Vgl. Martin P., Ogilvie T., BI Through the Customer's Eye, 1999, S.22

key account management and competitive intelligence), are carried out. The framework or philosophy in question is that of six-sigma.

5.1 The Role of Six-Sigma

Six-sigma is at once both a corporate philosophy spanning all corporate activities and processes, and also a statistical approach to measurement. Professor Armin Töpfer summarizes the dual aspects of six-sigma as shown in table 3 below.¹³²

The Dual Aspects of Six Sigma

Six Sigma	6 σ
<ul style="list-style-type: none">• Pfiffiges Projektmanagement mit fundierter statistischer Basis und wirksamen QM-Instrumenten	<ul style="list-style-type: none">• Statistisches Messkonzept
<ul style="list-style-type: none">• Systematische Methodik (DMAIC, DMADV)• Projekt- und Prozessmanagement• Toolbox (Prozessanalyse, Problemlösung, Statistik)• Philosophie, Kultur der Null-Fehler-Qualität „The way we work“	<ul style="list-style-type: none">• Kennzahl zur Leistungsfähigkeit von Prozessen• 3,4 Fehler bei 1 Million Fehlermöglichkeiten



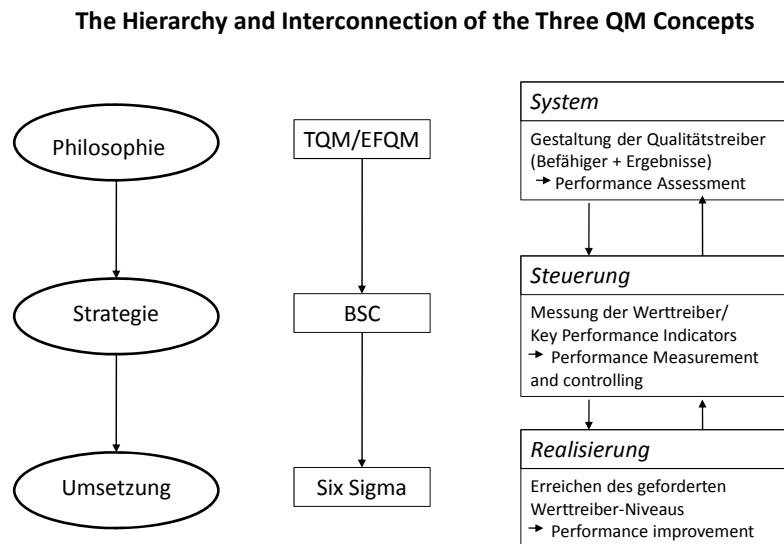
- Philosophie / Managementkonzept und Messkonzept
- Was man nicht messen kann, kann man nicht verbessern

Töpfer A., Steigerung des Unternehmenswertes durch Null-Fehler-Qualität als strategisches Ziel, 2004, S.7

Table 3.

¹³² Vgl. Töpfer A., Günther S., Steigerung des Unternehmenswertes durch Null-Fehler-Qualität als strategisches Ziel, 2004, S.7

Six Sigma is a quality management philosophy and tool. In regards the many facets to quality management that are now documented, Professor Töpfer places six-sigma in a hierarchy as shown in figure 13 below.



Töpfer A., Six Sigma, Balanced Score Card und EFQM-Modell in Wirkungsverbund, 2004, S.367

Figure 13.

TQM/EFQM (total quality management/European Foundation for Quality Management) represents an ideal model of business excellence. The TQM/EFQM defines the drivers of quality and business success. It does this by defining enablers of quality (drivers) and quality results from various perspectives and sets standards for each enabler and result category. Out of this ideal model the balanced scorecard (BSC) approach places the drivers of quality and targeted results into the context of a company specific strategy. It uses the firm strategy to prioritize and define causal relationships between each driver, and categorizes the drivers and results according to four different business perspectives (learning and growth

perspective, internal business processes perspective, customer perspective and financial perspective) as shown in figure 14 below.¹³³

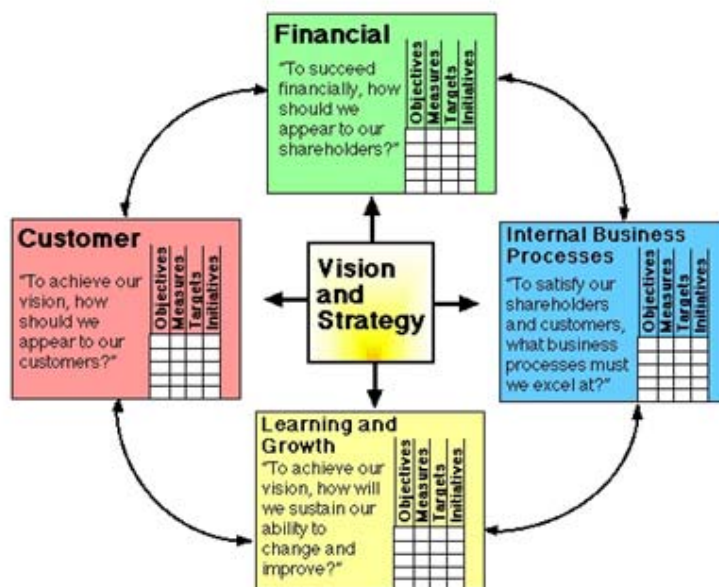


Figure 14: The Balanced Scorecard (Source Kaplan, Norton)

For each of the drivers of quality, it defines so called key performance indicators (KPIs). KPIs are goals and performance measures for each of the drivers. As such the BSC is a controlling tool.

Six Sigma is all about how one goes about improving the performance of KPIs. The EFQM and BSC work in partnership, taking quality ideals (EFQM) and translating them into an ever-more company and strategy specific form (BSC). "Six sigma erweitert und verstärkt diesen Zweiklang durch eine kompromisslose Konzentration auf die Umsetzung. Durch klare Ziele und Meilensteine wird das geförderte Werttreiber-Niveau realisiert."¹³⁴ Six sigma takes the task of improving a particular

¹³³ Vgl. Töpfer A., Six Sigma, Balanced Scorecard und EFQM-Modell im Wirkungsverbund, 2004, S.367

¹³⁴ Töpfer A., Six Sigma, Balanced Scorecard und EFQM-Modell im Wirkungsverbund, 2004, S.368

KPI, analyses the process delivering the performance into steps and classifies them according to which of the four perspectives above they belong. It does this in three main steps:

- An "outside-in" analysis is undertaken whereby the "voice of the customer" (VOC) on the particular value driver in question is heard via a questionnaire. Here the factors critical to quality from the customers standpoint (CTQ's) are ascertained. This is followed by an "inside-out" analysis whereby current performance in the CTQ is evaluated, along with the level of core competency (needed to meet customer requirements) in the CTQ factor, ascertained.
- Each six sigma project uses so called SIPOC analysis to highlight each process step and categorize them in the order supplier, input, process, output and customer. Here standards are set for input, process and output metrics such that the required performance in the CTQ factor is reached.
- The performance standards for each process step are set in accordance with CTQ factor values and corporate strategy.¹³⁵

The result of this three stage process is that the vision of quality (from the customer's standpoint) has thus been broken down from the over-arching model of business excellence (EFQM model) and turned into improvement action-plans in each of the firm's value-adding processes.¹³⁶

The voice of the customer, and the thus determined CTQ's should guide the development of every value-adding process within a company. "Everything can be looked at in terms of a process, whether it's handling paperwork or an idea or a customer call or a hard product. "That is probably one of the biggest concepts for

¹³⁵ Vgl. Töpfer A., Six Sigma, Balanced Scorecard und EFQM-Modell im Wirkungsverbund, 2004, S.365-366

¹³⁶ Vgl. Töpfer A., Six Sigma, Balanced Scorecard und EFQM-Modell im Wirkungsverbund, 2004, S.366

people to grasp.”¹³⁷ “We need to determine the starting points with a clear, quantitative understanding of customer satisfaction, which is typically accomplished through surveys.”¹³⁸ “Six Sigma is a philosophy of continuous improvement and measurement to drive the direction of goals. Its concepts are not earth-shaking. Talk to your customers (those customers can be firm internal or external), and find out what the defects are. Work on your big errors first. Try to decide how they happen and how you can permanently correct them.”¹³⁹

Key accounts are by definition the company’s most important customers. They are given this status partly on grounds of their strategic importance to the development of the business. The six sigma philosophy underlines the importance of listening to such customers, and it is the key account manager’s responsibility that that listening occurs throughout his or her entire organization.

¹³⁷ Erwin J., The Six Sigma Focus on Total Customer Satisfaction, 1998, S.22

¹³⁸ Erwin J., The Six Sigma Focus on Total Customer Satisfaction, 1998, S.21

¹³⁹ Erwin J., The Six Sigma Focus on Total Customer Satisfaction, 1998, S.22

6 KAM in the Context of Relationship Management

6.1 Relationship Management

6.1.1 The Various Starting Points for the Analysis of the Firm

In order to generate an understanding for the context in which discussions about what are important for the well being of the firm can develop, it is important to first survey the various basic viewpoints from which a firm can be viewed. This will be done by briefly reviewing three of the most important – the classical, the behavioral and the resource based views. The oldest and still deeply embedded viewpoint is the classical view. Here the firm is seen as a profit maximizing organization operating in a market. If the market in which it is operating is properly functioning, according to classical theory, there will be perfect mobility of factors of production and each agent of the market will have access to perfect information. Each actor will be perfectly rational and will maximize their utility. The existence of the firm as an organization is seen, within the classical view, primarily to be founded on so-called incompleteness of contracts, where a recognition is made that a perfect static contract that reflects all contingencies is, in the real world, somewhat impossible to formulate. The dynamic situation of the business environment therefore requires flexibility and "The nature of the firm", to borrow the title from Coase's famous paper, lies indeed in its ability to provide various sorts of solutions

to incentive problems.”¹⁴⁰ Rather than all economic activity being undertaken by atomized perfectly competing entities, the early contributions made to the study of the firm and industrial organization made by such figures as Adam Smith did though recognize the need for cooperation “For example, Smith's (1776; 1795) or Babbage's (1832), discussions of factory production implicitly invoked team-production”¹⁴¹. However the classical view, despite coming to this important conclusion, did not develop this idea further, but rather concentrated on division of labor and a more agglomerated view of entire markets to provide its insights and recommendations, which means it is not suited as an intellectual framework in which to treat the development of inter-firm relationships and their management, an important part of this paper. Never-the-less, the classical school states that “It is generally recognized that knowledge problems are behind all interesting aspects of economic organization, and that the major function of, for example, firms is to cope with the economic problems introduced by changing, partial, tacit, complex, asymmetrical, etc. knowledge.”¹⁴² This latter statement is of fundamental importance to this paper. The behavioral view of the firm sees real world economic activity in the form of bargains struck by coalitions, the firm being an example of a coalition. The bargains that are struck are rarely perfectly profit maximizing but represent acceptable compromises reached within a framework of bounded rationality. The concept of bounded rationality leads to less than efficiency maximization, and “organizational slack[that]permits firms to survive in the face of adversity. Under the pressure of a failure (or impending failure) to meet some set of demands on the coalition, the organization discovers some previously unrecognized opportunities for increasing the total resources available.”¹⁴³ The behavioral view recognizes the market driven optimization process forced upon most firms. However its analysis of the mechanisms through which this comes about has its main focus on intra-

¹⁴⁰ Foss N J, *The Classical Theory of Production*, 1997, S.308

¹⁴¹ Foss N J, *The Classical Theory of Production*, 1997, S.308

¹⁴² Foss N J, *The Classical Theory of Production*, 1997, S.309

¹⁴³ Cyert, March, *A Behavioural Theory of the Firm*, 2006, S.43

company political forces, making it unsuitable as the main focus for looking at inter-company relationship development. In contrast, the resource based view (RBV) of the enterprise maintains that sustained competitive advantage results from the interplay between the resources that are there within a firm, and the managers' abilities to use those resources.¹⁴⁴ The asymmetry of resource possession between firms becomes one of the foci for the development of inter-firm relationships, key account relationships being a subset of such relationships.

6.1.2 The Resources Based View of the Firm

The resource based view of the firm takes up a different position to that of either the classical or behavioral views of the firm. Specifically there are two major assumptions in the classical viewpoint which are relaxed, those being that resource allocations between companies are identical, and that perfect factor mobility between firms is a given. Resource allocation between firms in the RBV view can be asymmetric, and factor mobility is not a given but instead factors are "sticky". As such, "this model assumes that these resources may not be perfectly mobile across firms, and thus heterogeneity can be long lasting. The resource-based model of the firm examines the implications of these two assumptions for the analysis of sources of sustained competitive advantage."¹⁴⁵

A sustained competitive advantage according to this view is attained if the following requirements for the resource in question are met:

1. The resource must be valuable in the sense that it exploits opportunities and/or neutralizes threats in a firm's environment
2. The resource must be rare amongst a firm's current or potential competitors
3. The resource must be imperfectly imitable

¹⁴⁴ Vgl. Barney J, Firm Resources and Sustained Competitive Advantage, 1991, S.116

¹⁴⁵ Barney J, Firm Resources and Sustained Competitive Advantage, 1991, S.101

4. There cannot be strategically equivalent substitutes for the resource that are valuable but neither rare nor imperfectly imitable¹⁴⁶

Barney focuses on the strict requirements a resource must meet to be a source of sustained competitive advantage. One of the most stringent requirements is that, rather than a resource only being imitable by competing firms after a long period, a resource that endows its owner with sustained competitive advantage may not be at all imitable by current or potential competitors. Only fundamental or structural changes in the industry's environment can make such a resource lose its relevance. Barney also focuses on the type of resource that qualifies as imperfectly imitable. He identifies particular causes of a resource being imperfectly imitable. These causes are

- Unique historical conditions under which the resource is acquired
- Causal ambiguity regarding the link between the resource and the sustained advantage
- The resource itself is socially complex

The important aspect of Barney's argument is that the path followed by the firm in achieving its sustained competitive advantage, via an acquired resource, is impossible to retrace by a competitor. This is the case because either the conditions under which the resource was acquired are impossible to reproduce, or because the firm managers themselves do not fully understand the link between the resource and their own business's advantage or because a factor such as firm culture is close to impossible to duplicate. Barney illustrates using the example of information technology and specifically management information systems. He doubts, for instance, that the possession by a firm of computer systems per se can ever be a sustained advantage. He identifies though that the interface between such systems and management is the key to their effectiveness, a concept he describes as system "embeddedness". The exact nature of such "embeddedness" or interface can be both causally ambiguous and socially complex. A component of management

¹⁴⁶ Vgl. Barney J, Firm Resources and Sustained Competitive Advantage, 1991, SS.105-106

information systems such as an effective competitive intelligence system could display all the characteristics of such an embedded system, and which particularly efficient functioning may well represent a sustained competitive advantage. Given the nature of such defined resource based sustained competitive advantage "firms cannot expect to "purchase" sustained competitive advantages on open markets[...]. Rather, such advantages must be found in the rare, imperfectly imitable, and non-substitutable resources already controlled by a firm[...]."¹⁴⁷ If a company must acquire a particular resource endowing such a sustained competitive advantage, the only logical conclusion that can be drawn from the conclusion of the RBV, is that it must do so by seeking out a relationship with the company that already possesses such sustained advantage.

6.1.3 The Relational View of the Firm

The relational view of the firm is a logical extension of the RBV, and derives from it. While the RBV concentrates on intra-company resources, the relational view recognizes that "a firm's critical resources may extend beyond firm boundaries."¹⁴⁸ The nature of transactions between firms can be either purely market-based, arms-length in nature, or a more intimate cooperative relationship can develop. Arms length, purely commercial transactions can be imitated by most any competitor, and so such buyer-supplier relationships based on such transactions cannot be the source of sustained competitive advantage. By contrast "idiosyncratic inter-firm linkages may be a source of relational rents and competitive advantage."¹⁴⁹ Dyer and Singh in their 1998 paper recognize that the valuable, rare, imperfectly imitable and unique facets of inter-company relationships that become sources of relational rents and sustained competitive advantage are rooted in the following categories:

¹⁴⁷ Barney J, Firm Resources and Sustained Competitive Advantage, 1991, S.117

¹⁴⁸ Dyer, Singh, The Relational View, 1998, S.660

¹⁴⁹ Dyer, Singh, The Relational View, 1998, S.661

- Investments in relation-specific assets
- Substantial knowledge exchange
- The combination of complementary but scarce resources
- Lower transaction costs than competitor alliances¹⁵⁰

Dyer and Singh place great emphasis on the socially complex and causally ambiguous aspects of such inter-company relationships as the root of their sustained nature and innate advantages. "Strategic alliances allow firms to procure assets, competencies, or capabilities not readily available in competitive factor markets, particularly specialized expertise and intangible assets, such as reputation."¹⁵¹ Dyer and Singh's main thesis, based on empirical research, is that "productivity gains in the value chain are possible when the trading partners are willing to make relation-specific investments and combine resources in unique ways."¹⁵² Investments in relation-specific assets lead to "lower total value chain costs, greater product differentiation, fewer defects, and faster product development cycles."¹⁵³ Substantial knowledge exchange "generate[s] rents by developing superior interfirm knowledge-sharing routines."¹⁵⁴ The combination of complementary but scarce resources "when combined with the resources of the partner, result[.] in a synergistic effect whereby the combined resource endowments[are] more valuable rare, and difficult to imitate than they had been before they were combined."¹⁵⁵ An added effect compounding the advantages of cooperative alliances, is that "the ability of firms to generate relational rents by combining complementary resources increases with the firm's (1) prior alliance experience, (2) investment in internal search and evaluation capability, and (3) ability

¹⁵⁰ Vgl. Dyer, Singh, *The Relational View*, 1998, S.662

¹⁵¹ Oliver C, *Sustainable Competitive Advantage*, S.707

¹⁵² Dyer, Singh, *The Relational View*, 1998, S.661

¹⁵³ Dyer, Singh, *The Relational View*, 1998, S.664

¹⁵⁴ Dyer, Singh, *The Relational View*, 1998, S.665

¹⁵⁵ Dyer, Singh, *The Relational View*, 1998, S.667

to occupy an information rich position in its social/economic networks.”¹⁵⁶ The existence of complimentary resources is however not sufficient to ensure their effective combination, and compatibility of firm cultures is also a prerequisite for effective relationship building. Lower transaction costs in cooperative rather than competitive alliances are attained by “aligning transactions with governance structures[this having]an advantage over competing transactors who do not employ efficient governance mechanisms.”¹⁵⁷ The crux of the issue being here that relationship governance based on mutual trust, goodwill and transparency will be both more flexible to changing environmental conditions, have lower set-up and maintenance costs and tend to appreciate with time (mature) rather than depreciate (run-out in jurisdiction) when compared to written formal legal agreements. Given the crucial nature of the roles involved in key relationship management, the choice of key account manager should involve asking the question, is the candidate for the role capable of managing a business the size that the key account can eventually become? This question can be broken down into sub categories:

- Is the candidate mentally agile enough to understand the customer’s business as well as the customer?
- Does the candidate have relational skills of a caliber to effectively manage multi-faceted and complex relationships?
- Is the candidate capable of reporting to the firm’s top management?¹⁵⁸

6.1.4 The Alternative to the Relational View – The Transactional View

The transactional view of buying behavior sees the focus of analysis being the individual buying transaction. The development of a longer term commitment between buyer and supplier that extends beyond the horizon of an individual

¹⁵⁶ Dyer, Singh, The Relational View, 1998, S.668

¹⁵⁷ Dyer, Singh, The Relational View, 1998, S.670

¹⁵⁸ Ivens et al. Relationship Keyness, 2009, S.518

buying decision is not explicitly examined. The first structural model illustrating the influence factors on institutional (business to business) buying decisions was that developed by Webster / Wind in 1972. Their structural model is illustrated below in figure 15.

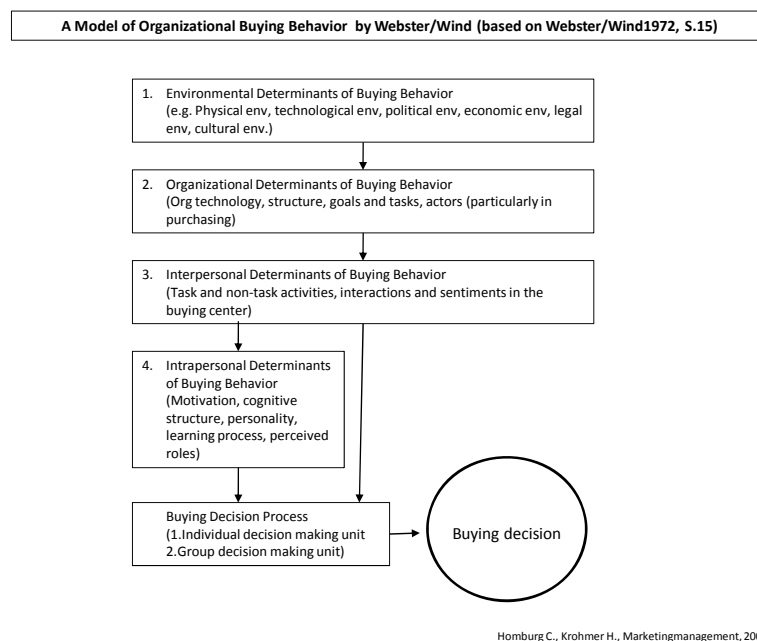


Figure 15.

In the Webster/Wind model, "the four classes of variables determining organizational buying behavior are individual, social, organizational and environmental."¹⁵⁹ Webster and Wind describe the focus of the analysis in their model as follows. "The organizational buying process is a form of problem-solving, and a buying situation is created when someone in the organization perceives a problem - a discrepancy between a desired outcome and the present situation - that can potentially be solved through some buying action."¹⁶⁰ The interplay of

¹⁵⁹ Webster, Wind, A General Model for Understanding Organizational Buying Behavior, S.13

¹⁶⁰ Webster, Wind, A General Model for Understanding Organizational Buying Behavior, S.14

objective and subjective factors, as well as a sweep of the environmental factors and internal firm requirements is undertaken as inputs to the decision. The decision itself is not taken by one person but is a joint decision taken by a buying center. At bottom though, the Webster / Wind model focuses on individual buying decisions and ignores the longer term implications that the development of a relationship can have on institutional buying behavior. As such it illustrates well the transactional approach to business to business selling.

6.1.5 Types of Key Relationship

The keyness of certain relationships with external actors has already been introduced in the context of KAM. We shall now look at the subject of relationship keyness more generally. A business to business relationship is considered key when "the access to or the combination with the resources held by these external actors are a condition to [the company's] mere existence."¹⁶¹ Ivens et al identify that, in an attempt by companies to augment their offering and get away from commodity status, there is a tendency to add to their core offering with complementary products or services in order to add-value and protect their product from commoditization. Surrounding a product with complimentary services, or integrating other products in with our core offering succeeds in doing this. Ivens et al propose that as a result though, the main lesson for business markets is that they "must move from a product-centric logic to a customer-centric logic"¹⁶². This is to say that the bundle of goods and/or services we wish to supply has to be defined by the customer if it is to add-value to the customer. This naturally raises the dependency of the business on external actors, such as key suppliers and customers, and as a

¹⁶¹ Ivens et al., Relationship Keyness: The underlying concept for the different forms of key relationship management, 2009, S.516

¹⁶² Ivens et al., Relationship Keyness: The underlying concept for the different forms of key relationship management, 2009, S.514

result, raises the importance of relationship management. In the IT sector, Ivens et al distinguish between system suppliers and system integrators. "A systems seller is a "vertical integrated firm that produces all or most of the product and service component required for integrated solutions provision.[...]A systems integrator is "a prime contractor organization responsible for the overall system design and integrating product and service components supplied by a variety of external suppliers into a functioning system""¹⁶³

A company's performance depends upon its relationships with a limited number of partners.¹⁶⁴ As a result "companies understand[relationship]keyness as a major challenge"¹⁶⁵. One of the main focuses for key relationships is in the promotion of strategic change. Dittrich et al. in their 2007 paper Strategic repositioning by means of alliance networks recognize that there are two main types of alliance relationships, those that support so-called exploration strategies and those that support exploitation strategies.¹⁶⁶ Exploration strategies imply looser, often R&D based alliances in new technological capabilities. They are in that form to allow "Learning by doing" and experimentation, the essential components of double-loop learning. If the relationship is not proving to be bearing the fruit hoped-for, it's somewhat looser and lower commitment nature allows it to be broken-off without too much loss. In contrast, exploitation strategies imply relationships of a much closer nature involving higher commitments (investments) by both parties. Here

¹⁶³ Ivens et al., Relationship Keyness: The underlying concept for the different forms of key relationship management, 2009, S.514

¹⁶⁴ Vgl. Hakansson, H. & Snehota, I., Developing Relationships in Business Networks, 1995

¹⁶⁵ Ivens et al., Relationship Keyness: The underlying concept for the different forms of key relationship management, 2009, S.518

¹⁶⁶ Dittrich et al., Strategic repositioning by means of alliance networks: The case of IBM, 2007, S.1497

single loop learning is aimed for such that such benefits as economies of scale can be closely exploited and operational relationships optimized.¹⁶⁷

6.1.6 The Management of those Key Relationships

The identification of key relationships and their management are at one linked. "Alliances require managers who can think and manage in ways that differ from what is required to manage a functional unit or business."¹⁶⁸ The nature of key resources that are being sought are only really recognizable by practitioners deeply involved in the field. That is why "key relationships and key relationship management as the management of such relationships are dialectically linked. The concept of keyness encompasses both of these dimensions of key relationship management."¹⁶⁹ A subtle combination of soft and hard management qualities are required. In contrast to the networking - entrepreneurial – intrapreneurial skills associated with scoping-out the potential for new relationships, once those relationships are becoming established, research has shown that a good deal of structure and formalization, especially when it come to communication, benefits key business relationships.¹⁷⁰ Ivens et al identify four areas where they claim a dedicated strategic alliance function adds value in the management of strategic relationships. This is because such a dedicated function

- Improves knowledge management efforts
- Increases external visibility

¹⁶⁷ Dittrich et al., Strategic repositioning by means of alliance networks: The case of IBM, 2007, S.1498

¹⁶⁸ Spekeman et al., Alliance Management: A View from the Past and a Look to the Future, 1998, S.765

¹⁶⁹ Ivens et al., Relationship Keyness: The underlying concept for the different forms of key relationship management, 2009, S.518

¹⁷⁰ Vgl. Daugherty et al., Is collaboration paying off for firms?, 2006, S.67

- Provides internal coordination
- Eliminates both accountability and intervention problems¹⁷¹

In the case of key relationships with customers there are some specific do's and don'ts related to both protection of company know-how and also the avoidance of boxing oneself into developing products that are suited solely for one particular customer or market niche. Enkel et al identify the precautionary measures that should be taken as follows

- The selection of the right customers (preferably lead users) to be integrated
- The choice of the right methods of integration
- The choice of the right time and place for integrating customers into the innovation process
- The provision of the right prevailing conditions (IP management, staff management, incentive systems among other things), and
- The choice of the right project in which the integration of customers creates a genuine added value.¹⁷²

Erickson and Rothberg differentiate between industries with high levels of intellectual capital to structural capital and industries where the ratio is lower. Specifically they identify that consumer product industries tend to have a higher ratio of intellectual capital to structural capital than is the case generally in business to business industries. This also will have implications regarding the levels of protection of IP that is necessary in an alliance.¹⁷³

¹⁷¹ Vgl. Ivens et al., Relationship Keyness: The underlying concept for the different forms of key relationship management, 2009, S.515

¹⁷² Vgl. Enkel et al., Managing the Risk of Customer Integration, 2005, S.212

¹⁷³ Vgl. Erickson G.S., Rothberg H.N., Intellectual Capital in Business to Business Markets, 2008, S.164-165

6.2 Customer Relationship Management

In thinking about the role that key accounts make to the development of a business it is important to ground the discussion about what a key account is within the subject of customer relationship management (CRM) generally. "Customer relationship management aims at establishing long-term relationships with customers in order to gain insights into what matters most to customers."¹⁷⁴ This is not done as an end in itself but as a means for developing long term benefits. These benefits can be classified under three headings:

- Greater security for the business
- Greater growth for the business
- Greater profitability / return on investment¹⁷⁵

Originally the development of longer term relationships with customers was seen, as part of this philosophy, as an end in itself. Through a relatively undifferentiated approach, lack of linking of CRM implementation to corporate goals, and a lack of thinking through of its implementation, the results (in terms of tangible benefits to the corporate bottom-line attributable to CRM implementation) were often meager or non-existent.¹⁷⁶ Because of this, customer relationship management as a concept has gone through four phases of development. From its roots in the 1980's, where in the start-up phase of CRM as a concept, ideas were generated around the basic idea that there were advantages in developing longer term relationships with customers, there developed a second phase in the 1990's where the development

¹⁷⁴ Damm R, Monroy CR, A Review of the Customer Lifetime Value as a Customer Profitability Measure in the Context of Customer Relationship Management, 2011, Intangible Capital

¹⁷⁵ Vgl. Diller H., Die Bedeutung des Beziehungsmarketing für den Unternehmenserfolg, 2007, S.101

¹⁷⁶ Vgl. Hansen U, Beziehungslos im Dschungel des Beziehungsmarketing, 2007, S.150

of concrete CRM concepts, tools and implementation strategies occurred. The third phase has involved the integration of the CRM concept into an IT strategy, the setting of standards and measuring success. After a period of re-assessment of the achievements of CRM, a re-launch of the CRM concept has in a fourth phase occurred. Here a more discriminating approach is establishing itself whereby the type of relationship to be developed is being varied depending on customer type and potential. The value that each customer can bring is being measured against their contribution towards meeting corporate goals.¹⁷⁷ The resultant ranking in importance, or classification, of customers provides the back-drop to deciding which of a company's accounts are key.

6.2.1 Choosing Key Customer Relationships

In contrast to the transactional view, the customer relationship view of marketing looks at the value a customer represents to a business through the entire life-time of that customer relationship. A thorough understanding of what that value is, is rarely achieved, and very often substituted by such imprecise or erroneous measures as a customer's current turnover ranking with the supplier, total market share or market image.¹⁷⁸ In contrast a thorough analysis of the value of the account for the supplier is needed, and a ranking of the supplier's customers required, such that decisions taken on where marketing expenditure is to be invested have a chance of being correct.

6.2.1.1 Customer Life-Time Value

Measuring the value that a customer represents to its supplier over the life-time of the supply relationship begs the questions, what are the benefits that customers

¹⁷⁷ Vgl. Diller H., Die Bedeutung des Beziehungsmarketing für den Unternehmenserfolg, 2007, SS.117-118

¹⁷⁸ Vgl. Yang AX., Using Lifetime Value to Gain Long-Term Profitability, 2005, S.142

bring to suppliers? Naturally it is simplest to use turnover or profitability as the measure but such financial measures on their own do not provide the complete picture. Damm and Monroy in their 2011 paper recognize that, true to the spirit of the balanced score-card approach, investments in marketing are aimed at bringing both tangible and intangible benefits.¹⁷⁹ Examples of the intangible benefits are the customer referral value, the customer influencer value and the customer knowledge value.¹⁸⁰ The referral and influencer value brought to the relationship by satisfied customers, operates in the form of word of mouth (WOM) or viral marketing¹⁸¹, and has been the subject of much research. It is the job of the KAM in the form of a "VIP Engagement Manager" as Brown and Hayes put it, to manage those influencer relationships in business to business markets.¹⁸² Other intangible effects though such as "customer led innovations offer multiple benefits such as reduced time-to-market, reduced cost-to-market or increased fit-to-market (Piller, 2006). Those benefits do have an impact on financial measures, even though they might impact in an indirect way."¹⁸³ A multi-dimensional measure of customer life-time value (CLV) is needed that takes such indirect influencers of future corporate performance into account.

6.2.1.2 Situation in Practice and Pitfalls

The customer life-time value calculation in its simple form is "the sum of cumulated cash flows - discounted using the weighted average cost of capital (WACC) – of a

¹⁷⁹ Vgl. Damm R, Monroy CR, A Review of the Customer Lifetime Value as a Customer Profitability Measure in the Context of Customer Relationship Management, 2011, Intangible Capital, S.269

¹⁸⁰ Vgl. Kumar et al. Undervalued or Overvalued Customers: Capturing Total Customer Engagement Value, 2010, S.

¹⁸¹ Vgl. Schwarz T., Integrierte Kommunikation, 2008, S.90

¹⁸² Vgl. Brown D., Hayes N., Influencer Marketing, 2008, S.204

¹⁸³ Damm R, Monroy CR, A Review of the Customer Lifetime Value as a Customer Profitability Measure in the Context of Customer Relationship Management, 2011, Intangible Capital, S.269

customer over his or her entire lifetime with the company”¹⁸⁴. In terms of its use it is a relatively simple equation. What is complicated is obtaining the input data that means that the resultant value assigned to a customer is of any use in decision taking on subjects such as marketing spend allocation or key account classification. The situation is well illustrated by a simple example. Even at the level of decision taking about the viability of such a simple marketing activity as a mail-shot, Amoy Yang in his 2005 paper identifies that taking the right decision on the viability of mail-shots depends upon the ability to calculate a life-time-value (LTV) for a group of customers. Without such a value, the long-term-value break-even response rate (LTV BE% Reps) cannot be calculated and the true value to the business of the campaign is unknown. The difference between the normal break-even response rate (BE% Reps) and the LTV BE% Reps is that while the BE% Reps compares the normal value of initial orders from new customers with the expenditure associated with the campaign, the LTV BE% Reps looks at the life-time value average for customers (LTVA) compared to campaign expense. If accurate LTVA data were not available, marketing managers would be missing out on opportunities as such “a far-reaching benchmark allows one to make an immediate strategic decision and gain profitability in the long run.”¹⁸⁵

6.2.1.3 Compound Measures – The role of Business Intelligence

The kernel of the problem is, how do we go about taking other measures of value into account when evaluating the importance of customer relationships, other than yesterday's turnover and profit figures? The problem is at once both a question of data collection and data management. The quantitative historical data available within the company must be supplemented or enriched with insight. The backward looking nature of available quantitative data within the business must be given a context in which to develop hypotheses about the future such that through

¹⁸⁴ Kumar V., Rajan B., Profitable Customer Management: Measuring and Maximising Customer Lifetime Value, 2009, S.

¹⁸⁵ Yang AX, Using Lifetime Value to Gain Long-Term Profitability, 2005, S.151

interpretation, the quantitative data becomes the basis for informed decision making. The process of collecting such internal (quantitative) and external (qualitative) data as well as its thoughtful combination leads to the generation of so called business intelligence. "Business intelligence (BI) bezeichnet einen integrierten, unternehmensspezifischen, IT-basierten Gesamtansatz zur betrieblichen Entscheidungsunterstützung."¹⁸⁶ The basis for making informed and economically correct decisions is insight. Business intelligence should provide a basis of future insight, with the data developed within its generating processes being of a richness and structure that allows informed interrogation of that data. The economic quantitative data being generated by the business itself is being generated more and more from the operative level systems within an e-business structure. Via data-warehouses and data-marts, operational level transactional information is structured such that via such analytical systems as OLAP (on-line analytical processing), or processes like data-mining, aggregation and interrogation of the data can be undertaken to look for patterns or trends. In a similar fashion, qualitative environmental data is entered, structured, edited and analyzed within a data-warehouse for qualitative data about the business's environment. Such so-called competitive intelligence combined with insights from aggregated internal quantitative data from the business can form, if well edited, analyzed and combined, business intelligence. It is such business intelligence that serves as the basis of the generation of composite measures of customer life-time value (CLV). This is because through the enrichment of quantitative with qualitative data, one is in a position to recognize that "customers offer more than their financial value and that indirect effects play a crucial role that need to be accounted for."¹⁸⁷ These indirect effects include word-of-mouth (WOM) advocacy and customer-led

¹⁸⁶ Kemper et al., Business Intelligence – Grundlagen und praktische Anwendungen. 2010, S.9

¹⁸⁷ Damm R, Monroy CR, A Review of the Customer Lifetime Value as a Customer Profitability Measure in the Context of Customer Relationship Management, 2011, Intangible Capital, S.275

innovations with associated benefits of reduced time-to-market, reduced cost-to-market or increased fit-to-market.¹⁸⁸

¹⁸⁸ Vgl. Damm R, Monroy CR, A Review of the Customer Lifetime Value as a Customer Profitability Measure in the Context of Customer Relationship Management, 2011, Intangible Capital, S.269

7 Strategic Networks

7.1 What is a Strategic Network?

In section 4, we looked at the background to strategy making. In that section, some of the important background factors that had to be considered in the process of developing strategy were:

- What is the structure of the background market in which we will be operating (five forces model)?
- What specific unfulfilled needs does the customer have that we can fulfill better than anyone else in the industry?
- What are the strengths and weaknesses of our value chain, relative to the industry's value chain, in relation to the identified needs of the customer, and embodied by potential value chain linkages?
- How do we know which customers we can most profitably serve?
- How do we make the most of (or leverage) our strengths and compensate for weaknesses? Specifically, how are the value-chain linkages (that will raise our performance and help us serve the customer better) to be organized?
- Who is to organize and manage such relationships (linkages)?

In dealing with answering some of these questions a strategic (alliance) network is quite often seen as the answer. A strategic network consists of various strategic alliance (dyadic) relationships. The relational view of the firm already explored in section 6.1.3 recognizes that important resources can be generated in inter-company relationships.

7.1.1 Definition of a Strategic Alliance

A strategic alliance is a relationship with an external actor put in place (according to Ivens et al.) "because the access to or the combination with the resources held by these external actors [is] a condition to [the company's] mere existence."¹⁸⁹ Theoharakis et al state "[alliance]relationships are defined as the "mutually oriented interaction between two reciprocally committed parties"[...]This definition emphasizes the concept of mutuality and thus[...]neither firm would be able to achieve the same performance in isolation"¹⁹⁰. Möller and Rajala in their 2007 paper place strategic alliances within a wider perspective. They see alliances developing not as one-on-one dyadic relationships, but within a network of many alliances, or within a (strategic) business network.

7.1.2 Multiple Strategic Alliances as Network

The developments of such networks is "one of the fundamental shifts in the 21st century[...]from a dyadic perspective of interorganizational exchange relationships towards a network perspective of value creation involving different types of network organizations."¹⁹¹ Möller and Rajala go on to define three types of business networks as follows:

- Current Business Nets
 - Goals
 - To achieve high systemic efficiency through value activity integration and coordination

¹⁸⁹ Ivens S.B., Pardo C., Salle R., Cova B., Relationship Keyness, 2009, S.516

¹⁹⁰ Theoharakis V., Sajtos L., Hooley G., The Strategic Role of Relational Capabilities in the Business to Business Service Profit Chain, 2009, S.915

¹⁹¹ Möller K., Rajala A., Rise of Strategic Nets, 2007, S.895

- Provide integrated customer offerings by combining complimentary resources

Characteristics

- Relatively stable, multi-tiered structure
- Prominent level of codifiability of value activities and knowledge
- Relative transparency and level of determination of value activities

- Business Renewal Nets

Goals

- Renewal of existing offerings and business processes
- Production of customer-driven / specified solutions (cooperation with a lead user would fall into this category)

Characteristics

- Coexistence of stability and incremental change
- Specialized knowledge embedded in persons, communities of practice and routines – partly tacit and partly explicit
- Temporary in nature

- New Business Nets

Goals

- Influencing emerging field
- Creating new dominant technology solutions
- Creating new commercial applications

Characteristics

- Radical change involving change of existing value systems and creation of new ones
- Uncertainty concerning emerging knowledge structures and value activities
- Dispersed vaguely held ideas¹⁹²

¹⁹² Vgl. Möller K., Rajala A., Rise of Strategic Nets, 2007, S.902

7.2 The Importance of Strategic Networks to Modern Strategy Development

Dyer and Singh in their 1998 paper suggest that "productivity gains in the value chain are possible when trading partners are willing to make relation-specific investments and combine resources in unique ways."¹⁹³ Dyer and Singh go on to say that "competitive advantages of partnerships[...]seem to fall into four categories:

1. Investments in relation-specific assets
2. Substantial knowledge exchange, including the exchange of knowledge that results in joint learning;
3. The combining of complementary, but scarce, resources or capabilities (typically through multifunctional interfaces), which results in the joint creation of unique new products, services or technologies; and
4. Lower transaction costs than competitor alliances, owing to more effective governance mechanisms."¹⁹⁴

These points explain why a network of strategic partnerships provides at least some of the answers to the issues raised in the development of corporate strategy. Points 1, 2 and 3 address the need to deal with the five competitive forces, make the most of our strengths and compensate for any weaknesses and identify specific opportunities. Points 1 and 4 help address the need to both develop and effectively manage the value chain linkages that result.

7.2.1 Networks as Part of the "New Approach" to Marketing

There has been a shift in focus of the business organization, as noted in Section 7.1.2. Ivens et al note that the firm "must move from a product-centric logic to a

¹⁹³ Dyer, Singh, The Relational View, 1998, S.661

¹⁹⁴ Dyer, Singh, The Relational View, 1998, S.661

customer-centric logic.”¹⁹⁵Theoharakis et al state that “research in the marketing domain has shown that firms are more successful when they focus on customer needs[...]and[...]that customer orientation is the most central component of market orientation, and in some instances the two concepts seem to be identical[...].”¹⁹⁶

In their 2011 article entitled “We’re all Marketers Now”, French et al describe how the task of marketing (“Marketing ist eine unternehmerische Denkhaltung. Sie konkretisiert sich in der Analyse, Planung, Umsetzung und Kontrolle sämtlicher interner und externer Unternehmensaktivitäten, die durch eine Ausrichtung der Unternehmensleistungen am Kundennutzen im Sinne einer konsequenten Kundenorientierung darauf abzielen, absatzmarktorientierte Unternehmensziele zu erreichen.”¹⁹⁷) has been seconded out to almost every department in a company. The need for this has been driven by the need to manage the „total customer experience”¹⁹⁸. The customer touch points in the age of internet-enabled e-business have dramatically increased, and as a result, the need to manage the customer’s experience at each of those touch points has also dramatically increased with this development. The process of interaction with customers has also fundamentally changed with the relationship becoming two-way whereas it used to be primarily one-way (from supplier to customer) and, as a result, was relatively passive. With the advent of the internet, and specifically Web 2.0 functionality, the customer is taking a far more active role in the relationship. This is a double-edged sword. Customers on the one hand are becoming far more active in the co-development¹⁹⁹ and co-production²⁰⁰ of their products, but on the other are becoming far more vociferous if they do not get satisfaction from the relationship. Marketing has

¹⁹⁵ Ivens S.B., Pardo C., Salle R., Cova B., Relationship Keynes, 2009, S.514

¹⁹⁶ Theoharakis V., Sajtos L., Hooley G., The Strategic Role of Relational Capabilities in the Business to Business Service Profit Chain, 2009, S.917

¹⁹⁷ Bruhn M., Marketing, 2009, S.14

¹⁹⁸ Vgl. French T., LaBerge L., Magill, We’re all marketers now, 2011, S.3

¹⁹⁹ Vgl. Kurzmann H., Kundenintegration in Innovationsprozesse, 2008, SS. 476-477

²⁰⁰ Vgl. Tapscott D., Williams A.D., Wikinomics, 2009, S.10

become much more than the development of a message which is then fed to the customer. The message is developed jointly between customer and supplier and is developed out of day-to-day real life interaction. The much savvier customer no longer believes what he or she has not personally experienced and they pass their experiences on to the rest of the market via web-based social networks and forums. As such the customer becomes also co-creator of the marketing message.²⁰¹ The customer experience must therefore be coordinated. It is no good the sales team saying one thing and the operations people doing something else. The message must be given with one voice. The marketing mentality must be spread throughout the company, with "a premium be[ing] placed on problem-solving and strategic marketing skills."²⁰² French et al. see this more interactive approach developing across the range of relationships with "deeper partnerships with external vendors, customers, and perhaps even competitors[being the norm]and a bigger role for data-driven customer insights."²⁰³ Also, the increased need for relationship coordination again reinforces the need for KAM, as this was identified as a key driver in the increased use of KAM.

7.3 The Importance of KAM in the Management of Strategic Networks

These latter points connect back to section one's discussion of the roles of KAM and e-business. The requirement for greater coordination of key customer relationships was shown to be one of the drivers for an increased need for KAM. In

²⁰¹ Vgl. French T., LaBerge L., Magill, We're all marketers now, 2011, S.5

²⁰² French T., LaBerge L., Magill, We're all marketers now, 2011, S.7

²⁰³ French T., LaBerge L., Magill, We're all marketers now, 2011, S.2

addition it was shown that studies confirm that e-business implementation promotes and supports coordination efforts. It therefore can be seen how the change in marketing's role and the rise of strategic networks raise the need for effective KAM.

7.3.1 The Role of the KAM in Partnering

Walter Powell in his 1999 paper "Trust-based forms of governance" highlights the role that "boundary-spanning" personnel have to play in the establishment and maintenance of strategic alliances. "Sydow (1991) argues that managerial functions change when organizations become involved in alliance networks. As firms pursue external collaborations, they attend more to interorganizational politics and assign greater importance to boundary-spanning personnel."²⁰⁴ Key account managers are a prime example of such boundary-spanning personnel who have the job of coordinating the alliance relationship between supplier and customer. This leads us to our second hypothesis.

7.3.1.1 Hypothesis H2: The establishment of a successful key account program is an important driving factor in the later development of a successful strategic network in which the firm takes up membership and operates.

The KAM role is a formalization of the relationship with a key customer. As argued in section 7.2.1, effective KAM is an important aspect in the development of strategic alliance networks. If we take the formalization of the management of such alliance relationships as meaning, in the case of the customer-supplier relationship, the establishment of a formal KAM function, then the study performed by Daugherty et al and described in their 2006 paper helps us to answer the question as to whether hypothesis H2 holds or not.

²⁰⁴ Powell W.W., Trust-based forms of governance, 1999, S.60

Daugherty et al surveyed 55 companies. The respondent company descriptive statistics are shown in table 4 below:

Survey methodology²⁰⁵

Sample	
Sampling frame:	The University of Oklahoma Logistics/Supply Chain Executive Panel
Total surveys mailed:	100
Total respondents:	62
Respondents indicating a collaborative relationship:	55
Range of annual sales:	\$30 million to \$28 billion
Average annual sales:	\$4.4 billion
Range in # of employees:	85-110,000
Average # of employees:	16,095

*Others include consulting companies, software companies, and marketing companies.

Table 4.

Table 5 below shows the type and quantity of firms indicating a collaborative relationship²⁰⁶

Respondent firms	Indicated collaborative relationship with:		
	Supplier	3PL	Customer
29 Manufacturers	9	4	16
5 Retailers	5		
11 3PLs	5	2	4
10 Others	2	3	5

Table 5.

Figure 16 below shows the respondent company profile²⁰⁷

²⁰⁵ Daugherty et al, Is collaboration paying off for firms? 2006, S.68

²⁰⁶ Daugherty et al, Is collaboration paying off for firms? 2006, S.69

²⁰⁷ Daugherty et al, Is collaboration paying off for firms? 2006, S.69

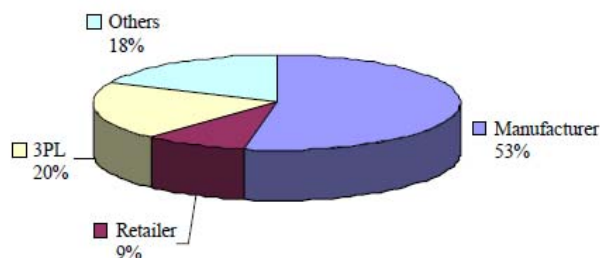


Figure 16.

Figure 17 below shows the respondent title profile²⁰⁸

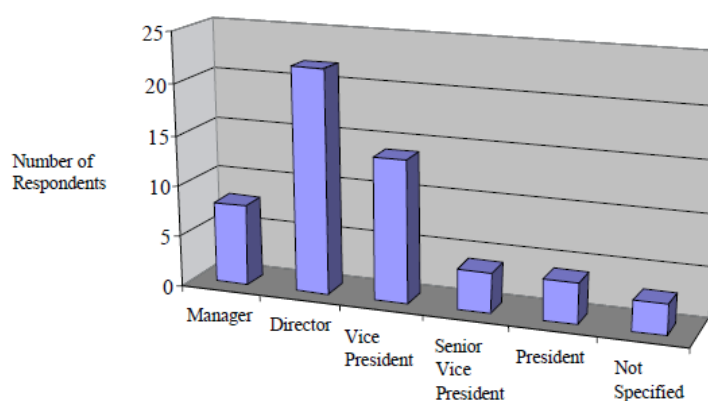


Figure 17.

"In order to identify potential differences based upon the level of formalization, the respondent firms were divided into two groups: one of low formalization and one of high formalization. A summed score was calculated for each participant company based upon responses to each of the nine formalization items shown [in table 6 below]"²⁰⁹:

²⁰⁸ Daughtery et al, Is collaboration paying off for firms? 2006, S.69

²⁰⁹ Daughtery et al, Is collaboration paying off for firms? 2006, S.65

Level of formalization²¹⁰

Scale items	Means ^a	S.D.
Communication between our company and the trading partner takes place frequently.	6.38	0.76
The basic terms of our relationship have been explicitly verbalized and discussed.	5.84	1.03
The terms for sharing information between our companies have been explicitly verbalized and discussed.	5.71	1.20
We share proprietary information with each other.	5.67	1.55
We include each other in formal business planning meetings.	5.51	1.56
Our expectations of the trading partner are communicated in detail.	5.47	1.30
We always share supply and demand forecasts.	5.40	1.94
We both share relevant cost information.	5.09	1.66
Contact between our company and the trading partner is usually on a formal and preplanned basis.	4.73	1.80

^a 7-point Likert scale: 1=strongly disagree, 4=neutral, 7=strongly agree.

Table 6.

"As each of the nine items had a potential score from 1 to 7, total possible scores ranged from 9 to 63. A cut-off point between 50 and 51 was the natural break-point, and was therefore used to divide the respondents. The 28 firms (50.9%) with scores of 50 or below were designated as less formalized, and the remaining 27 firms (49.1%) with scores of 51 or above were assigned to the high formalization group.[...]In absolute terms, the high formalization group had higher performance scores in all seven of the performance areas,"²¹¹as shown in table 7 below.

²¹⁰ Daughtery et al, Is collaboration paying off for firms? 2006, S.63

²¹¹ Daughtery et al, Is collaboration paying off for firms? 2006, S.65

Comparative analysis – low vs highly formalized firms²¹²

Scale items	Low	High	t	p
Improved information visibility.	5.89	6.33	– 2.02	0.049*
Improved service levels.	5.64	6.44	– 3.38	0.001**
Improved end-customer satisfaction.	5.71	6.30	– 2.39	0.021*
Increased flexibility in doing business.	5.12	6.22	– 3.47	0.001**
Reduced cycle time.	4.89	6.11	– 3.15	0.003**
Increased business volume.	4.89	5.63	– 1.82	0.074
Improved inventory visibility.	4.89	5.56	– 1.24	0.22

* $p < .05$.
** $p < .001$.

Table 7.

The Daugherty et al study therefore appears to confirm hypothesis H2. It shows that formalization of a relationship with supply chain partners is a key ingredient to the success of such collaboration. Between customer and supplier, an important example of relationship formalization is the KAM function.

²¹² Daugherty et al, Is collaboration paying off for firms? 2006, S.65

8 KAM, Strategic Networks & Strategic Execution

8.1 The Effects of Strategic Networks on Firm Performance

The advantages of relationships between cooperating firms on firm performance were identified by Dyer and Singh as:

- Investments in relation-specific assets
- Substantial knowledge exchange
- The combination of complementary but scarce resources
- Lower transaction costs than competitor alliances²¹³

The question is therefore, does the involvement of companies in strategic networks lead to enhanced firm performance? If this is the case, what precisely is the mechanism for this, and how do KAM and CI play their parts in such a mechanism? The answering of such a question is of course not trivial. Various attempts have been made and the intention of this section will be to introduce a variety of studies that have had this question as their focus, introduce their findings and analyze the variables and moderating factors involved. To begin the analysis, it makes sense to choose an existing framework in which to explain such a link. One of the main studies that investigated the effect of alliance network membership on firm performance was that of Theoharakis et al.²¹⁴ Theoharakis et al place their analysis

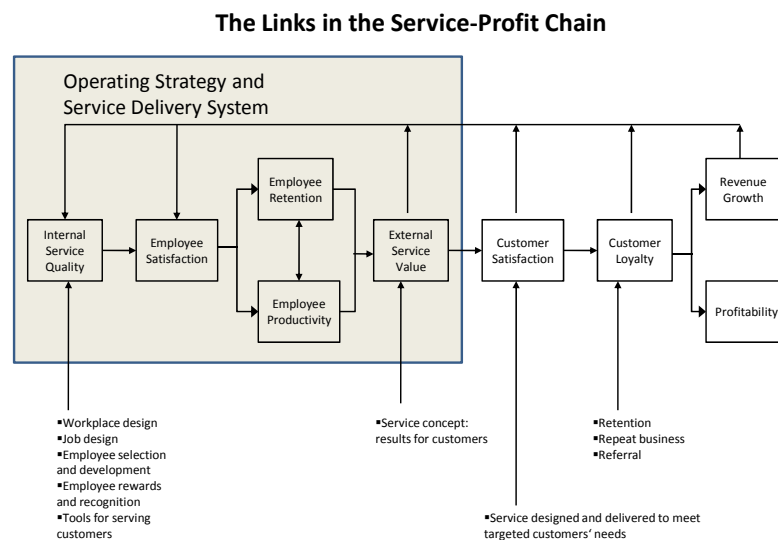
²¹³ Vgl. Dyer, Singh, The Relational View, 1998, S.662

²¹⁴ Vgl. Theoharakis V., Sajtos L., Hooley G., The Strategic Role of Relational Capabilities in the Business to Business Service Profit Chain, 2009, S.918

within the framework of the so called "service-profit chain" (SPC) proposed by Heskett et al.²¹⁵ We shall start by looking at what the SPC is and proposes.

8.1.1 The Service-Profit Chain (SPC)

The service-profit chain (SPC) as proposed by Heskett et al. posits that there is a linkage between profitability, customer loyalty and employee satisfaction, loyalty and productivity. "Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Value is created by satisfied, loyal, and productive employees. Employee satisfaction, in turn, results primarily from high-quality support services and policies that enable employees to deliver results to customers."²¹⁶ Figure 18 below depicts the service-profit chain.



Heskett et al., Putting the Service-Profit Chain to Work, 1994, S.120

Figure 18.

²¹⁵ Vgl. Heskett et al., Putting the Service-Profit Chain to Work, 2008, S.120

²¹⁶ Heskett et al., Putting the Service-Profit Chain to Work, 2008, S.120

One of the important insights provided by Heskett et al's paper is that it is the enabling of employees to do a good job, by providing for them the management support and infrastructure necessary, which initiates raising of the firm's service performance, customer loyalty and subsequently profitability. Theoharakis et al. extend the SPC by one further linkage, namely that of the firm's ability to both link with customers and also to build successful relationships with strategic partners.²¹⁷ Specifically, they posit that "employee satisfaction and loyalty has a positive impact on the firm's linking capabilities"²¹⁸(see Theoharakis hypothesis H_{3a} below) and that "employee satisfaction and loyalty has a positive impact on the firm's capability to build successful relationships with strategic partners."²¹⁹ (see Theoharakis hypothesis H_{3b} below)

8.1.2 KAM as a Key Component in the SPC

These concepts link back to the primary factors, identified by Workman et al., for ensuring that KAM is a success:

- Getting the choosing of the right customers with which to develop key account relationships right
- Having an understanding of the key customer's business
- Top management commitment to the key account relationship

²¹⁷ Vgl. Theoharakis V., Sajtos L., Hooley G., The Strategic Role of Relational Capabilities in the Business to Business Service Profit Chain, 2009, SS.916-917

²¹⁸ Theoharakis V., Sajtos L., Hooley G., The Strategic Role of Relational Capabilities in the Business to Business Service Profit Chain, 2009, S.916

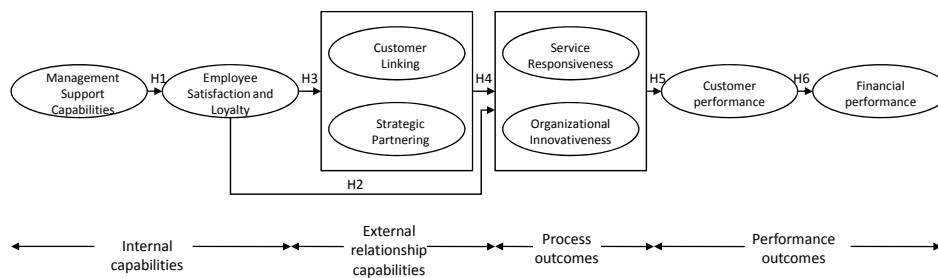
²¹⁹ Theoharakis V., Sajtos L., Hooley G., The Strategic Role of Relational Capabilities in the Business to Business Service Profit Chain, 2009, S.917

- Human aspects / corporate culture / team working
- Having a master plan
- An open relationship²²⁰

These key factors for KAM effectiveness all depend upon the stage being set by management for support of the KAM role. The activity pro-activeness and ability to pick the right relationships, as well as the development of a master-plan imply the existence of a formal and well resourced KAM role, as well as top management support of the KAM and KAM empowerment. As previously identified, it also implies the setting-up and resourcing of a professional CI function to support, among other things, the KAM role. The key step of enabling, by management commitment and support, effective interaction with customers and strategic partners, would therefore imply the appropriateness of the SPC as an intellectual framework in which to analyze this. Figure 19 below illustrates the modified SPC proposed by Theoharakis et al., as the framework for their study:

²²⁰ Vgl. Workman J.P., Homburg C., Jensen O., Intraorganizational Determinants of Key Account Management Effectiveness, 2003, S.8

The Impact of Internal Relational Capabilities on External Relationships and Outcomes



Theoharakis et al., The Strategic Role of Relational Capabilities in the Business-to-Business Service Chain, 2009, S.918

Figure 19.

8.1.3 Other Positive Factors Leading to Enhanced Firm Performance in Networks

There are various measures that could be taken of firm performance when searching for a link between firm membership within a strategic alliance network and firm performance. The two that have been looked at in some detail are ROA (return on assets), an accounting measure of firm performance, and firm market value, a valuation based on the share price of the company giving a market based capitalization of the company. Both performance measures have their advantages and disadvantages. The advantage of the accounting method ROA is that it is not a subjective method and as such is more comparable between companies. The disadvantage is that one is not comparing like with like. Potential increases in the denominator (sum of assets) may be increased before any effect can be seen from

the investment. One is comparing a numerator (profit) related to and generated from past investment decisions with a denominator based on forward looking investment decisions. In contrast, the market-based estimate of firm value looks at the capital value of discounted future cash flows and as such has the advantage that future oriented investment decisions are being compared to future returns. The disadvantage is that the market measure is more subjective and will also be more industry specific, making general comparisons between companies more difficult.²²¹ Cravens et al. as a consequence mention the balanced scorecard also as a valid tool to encourage congruity between performance measures, management measures and methods and the forward looking nature of the management task, particularly in the context of planning and managing alliances.²²²

The core, however, of a strategic alliance is the generation of shared resources and assets. It is these relationship specific assets that can be the basis of increased competitive advantage because of their relationship specificity and resulting inimitability. A penalization of such assets by using an inadequate performance measure that would show the generation of new assets as having reduced a short-term accounting measure such as ROA, should therefore be moderated by the use, in addition, of a market-based measure, in order to get a more rounded view of performance. There is though a potential benefit from strategic alliances in regards ROA performance. The effect involved runs counter to the one just described, and involves the higher utilization of existing (pre-alliance assets). This would have the opposite effect on the accounting ROA measure, in that the numerator (profits) could be increased with a proportionately smaller increase in the denominator (assets). This comes about from the realization of synergy from the alliance where

²²¹ Arend R.J., Amit R., Selection in Strategic Alliance Activity, 2005, S.365

²²² Cravens K., Piercy N., Cravens D., Assessing the Performance of Strategic Alliances, 2000, S.536

existing assets of both partners can be put to better effect for both parties resulting from the alliance, asset utilization for both parties being increased.²²³

Dyer and Singh recognize that "an information-rich position within a network, therefore, provides a firm with additional information about the nature and degree of accessibility of the complementary resources of potential partners."²²⁴The involvement in a strategic alliance provides access to information that can advantage the partner receiving the information. This can be as a result of exposure "to an industry's technologies, as well as to the industry's players and their relationships,[such that the recipient firm]can become aware of who can create value for it and how that value can be created"²²⁵ Arendt and Amit give the further example of how entering a strategic alliance with a competitor could act as a clever pre-cursor to a decision to acquire them, the alliance experience generating the best and closest due diligence information possible.²²⁶Therefore, in general, one can say that a potential benefit from being in a strategic alliance is the access to superior CI.

A further advantage is the access to certain assets held by one of the potential alliance partners, by the other. An example might be reputation. A small but innovative biotechnology start-up may have developed a superior product, but lacks the market presence that would allow it to successfully market its innovation. This lack of presence could involve the subjective risk associated with dealing with a relatively unknown entity in a high risk sector such as pharmaceuticals, concerns around the short or long-term financial stability of a start-up, or the lack of sufficient power or influence with other marketing channel members (distribution channels) that would be necessary to ensure sufficient access to customers. In this

²²³ Cravens K., Piercy N., Cravens D., *Assessing the Performance of Strategic Alliances*, 2000, S.529

²²⁴ Dyer, Singh, *The Relational View*, 1998, S.668

²²⁵ Arend R.J., Amit R., *Selection in Strategic Alliance Activity*, 2005, S.363

²²⁶ Vgl. Arend R.J., Amit R., *Selection in Strategic Alliance Activity*, 2005, S.365

case, a strategic alliance combining for example a biotechnology start-up's R&D capital with the reputation capital of an established pharmaceutical company lends the necessary legitimacy of the established partner to the less established partner.²²⁷

8.1.4 Moderators of the Effect of Strategic Networks on Firm Performance

A number of studies have been carried out into the effects of membership in a strategic alliance network and firm performance. Notable examples are the studies by Antoncic and Prodan²²⁸, Theoharakis et al.²²⁹ and Park and Cho²³⁰. However all of these studies suffer from the phenomenon known as self-selection. This is the phenomenon where-by the participants in the study are assumed to have chosen their strategies randomly. However the participants are all firms engaged in alliance activity. This can introduce bias into the sample because there is a chance that the firms that involve themselves in such alliances are all firms that may have a higher level of performance anyway. Thus higher performing firms have "self-selected", and the generally higher levels of performance in the sample are not necessarily a result of alliance activity, but could have been present anyway. The study performed on the effect of alliance on firm performance by Arend and Amit²³¹ is one of the few studies that specifically controls for self-selection.

²²⁷ Vgl. Walker G., Kogut B., Shan W., Social Capital, Structural Holes and the Formation of an Industry Network, 1997, S.119

²²⁸ Antoncic B., Prodan I., Alliances, corporate technological entrepreneurship and firm performance, 2008, SS.257-265

²²⁹ Theoharakis V., Sajtos L., Hooley G., The Strategic Role of Relational Capabilities in the Business to Business Service Profit Chain, 2009, SS.914-924

²³⁰ Park N.K., Cho D., The effect of strategic alliance on performance, 1997, SS.155-164

²³¹ Arend R.J., Amit R., Selection in Strategic Alliance Activity, 2005, SS.361-381

Walker et al in their study of how industry networks form identify several partly opposing and partly reinforcing phenomena affecting network formation. They identify that network density can have a positive effect on the ability to form and manage alliances via the phenomenon they describe as social capital. Firms occupying a relatively densely populated position in a network "have access to social capital, a resource that helps the development of norms for acceptable behavior and the diffusion of information about behavior."²³² Such a network is tending towards being "closed" in that most of the firms have relationships of some sort. This leads to rigidity when it comes to forming new relationships. It could however help to ensure that, via policing against opportunistic behavior, alliances tend to be more successful. In contrast, regions of the industry with high levels of rigidity or sparse populations of firms may exhibit holes, or opportunities to broker or form alliances. Such holes are regions where potential value chain linkages have not been exploited. So although social capital can make the management of relationships easier, the existence of holes represents opportunities to exploit linking potentials with higher returns. Here the quality of CI can play a part in the identification of such opportunities. Whereas regions of network density represent areas of mutuality and thus greater certainty, network holes represent areas of higher risk but potentially higher rewards. Which strategy is emphasized is dependent upon the industry. Industries with greater degrees of arms length transaction may favor the exploitation of holes, whereas industries where close engagement of partners and long-term relationships are the norm may favor the more conservative approach of operating within denser more "closed" networks.²³³

Park and Cho identify that market competitive intensity is a mediating factor in the degree to which an alliance can have any significant effect on performance. *Ceteris paribus*, if the number of competitors in a market is raised, the degree of

²³² Walker G., Kogut B., Shan W., Social Capital, Structural Holes and the Formation of an Industry Network, 1997, S.111

²³³ Vgl. Walker G., Kogut B., Shan W., Social Capital, Structural Holes and the Formation of an Industry Network, 1997, SS.118-119

competitive intensity increases, and thus the ability to exploit the advantages associated with alliances, identified at the beginning of this section, is diminished.²³⁴

Likewise, industry stability is also identified as a mediating factor in an alliances effect on firm performance. Specifically, in industries where changes in market share are greater and more frequent, *ceteris paribus* the probability that an alliance will lead to a greater change in market share of the alliance member will be greater.²³⁵

The higher the industry growth rate, *ceteris paribus* the greater the positive effect on firm performance of an alliance.²³⁶

Increased levels of coordination have seen to be associated with higher levels of success in strategic partnerships. In particular, increased levels of face to face communication between partners has been identified as a particularly effective method of problem resolution and associated with higher levels of performance of companies in partnerships.²³⁷ Again, here the contribution potential of KAM can be seen.

Cravens et al identify the importance of a clear identification of the strategic reason for the alliance, the setting of objectives in the form of a customized balanced scorecard, and the monitoring and communication of the results. Much like KAM, the laying out of an objective and a plan for the cooperation is of critical importance as the degree of effective coordination of the relationship is highly correlated with success.²³⁸

²³⁴ Vgl. Park N.K., Cho D., The effect of strategic alliance on performance, 1997, S.158

²³⁵ Vgl. Park N.K., Cho D., The effect of strategic alliance on performance, 1997, S.158

²³⁶ Vgl. Park N.K., Cho D., The effect of strategic alliance on performance, 1997, S.158

²³⁷ Vgl. Antoncic B., Prodan I., Alliances, corporate technological entrepreneurship and firm performance, 2008, S.259

²³⁸ Vgl. Cravens K., Piercy N., Cravens D., Assessing the Performance of Strategic Alliances, 2000, SS.536-539

8.1.4.1 Hypothesis H3: Companies operating in successful strategic networks remain in growth and growing profits for longer consistent periods than companies in the same industry and of a similar size that do not.

All four studies identified by the author in section 8.1.4 confirm that membership in a strategic network positively influences firm performance measured in terms of profitability or return on assets (ROA). However it is only the study by Arend and Amit, as a result of the study's controls for self selection, that is able to confirm that there is an improved performance for companies in a particular industry that engage in alliances over similar firms in the same industry that do not.²³⁹

8.1.4.2 Arend and Amit Study

The data sample used in the Arend and Amit study "consists of the full population of US firms in the areas of (1) computer programming, data processing, software, and systems, (2) computer equipment and peripherals and (3) computer semiconductors, circuit boards, and components (SICs 737, 357 and 367 respectively) in COMPUSTAT that had more than US\$10000 in revenue over the years 1989-1993. There were 1047 firms recorded, 287 of which had at least one strategic alliance in research and development or marketing and distribution, as recorded in the ITSA database."²⁴⁰The key findings from this study were:

- Firms with greater levels of firm capital are more likely to engage in alliance activity.
- After controlling for self-selection, alliance activity has a significant impact on firm performance as measured by the market value of the firm.
- Large firms with slack tended to dominate alliance activity.

²³⁹ Vgl. Arend R.J., Amit R., Selection in Strategic Alliance Activity, 2005, S.362

²⁴⁰ Arend R.J., Amit R., Selection in Strategic Alliance Activity, 2005, S.366

- Controlling for self-selection, firms that chose to partner, generally experienced value creation, but at return rates below the firm's average return rates.
- It appears that the firms choosing alliance activity would have been worse off without such activity.
- Firms that generally under-perform because of their resource sets can use an alliance to enhance their resource utilization, thereby improving their performance.
- Larger firms in alliances experienced better market value and worse accounting returns performance when compared to those that did not choose to ally.
- As a firm stretches to more distant applications, it gets lower value from factors specific to core activities. Since market measures recognize any value creation that exceeds its accompanying risk, diversification that creates value appears as beneficial to firm performance.
- Large firms may be more likely to engage partners in order to pursue business opportunities outside its core activity, and the firm applies less firm specific factors – which is in effect, diversification.
- Higher core-business returns reduced activity; that implies alliances are diversification.
- It appears that alliance activity is self-selected and apparently entails future expected value creation but with early reduced accounting returns.²⁴¹

²⁴¹ Vgl. Arend R.J., Amit R., Selection in Strategic Alliance Activity, 2005, SS.378-379

9 Conclusion and recommendations for future research

It has been shown in this paper that there is a link between CI, KAM and effective corporate strategy making. Studies have been identified that support at least some of the relationships postulated in the mind-map. What this paper shows is that:

- The heart of strategy is not the planning process, but the grasping of a vision of the firms future. This vision gets turned into a plan of action by the planning process, but the planning process is not the developer of corporate strategy. The strategy is born with the vision.
- The vision isn't generated by disengaged professional planners but by business practitioners, in the thick of running the business and developing strategic relationships.
- The nourishment for the spark of insight that is the "visioning" process at the base of strategy making is the feedback from the market in the form of CI and VOC.
- Raising the quality of corporate strategy is not about getting hold of the planning process and reforming it, it is about concentrating on information inputs and strategic execution. A firm can "kick-start" the virtuous circle of strategy illustrated in section one by getting professional CI and KAM functions organized and set-up in their companies.

Recommendations for future research would be

1. Establishing in one study the nature of the link between CI, KAM, Network participation and firm performance. Some understanding of the causality of this chain and also other accompanying mechanisms that will also have an effect on firm performance should be attained.

2. A study of the management structures most suited to managing the CI-KAM-Strategic network triad, including the way of organizing knowledge management most suited to aiding this triad work productively together.
3. A study of how the most effective key account managers can be most effectively drawn into the processes involved in generating the vision for corporate strategy.

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